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

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**FORM 10-Q**

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

OR

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

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

COMMISSION FILE NUMBER 0-30961

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**Sohu.com Inc.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

**Level 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)

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

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

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

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

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

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

Class	Outstanding at September 30, 2014
Common stock, \$.001 par value	38,486,906

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## PART I – FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	As of	
	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 840,896	\$ 1,287,288
Restricted time deposits	299,861	393,087
Short-term investments	209,508	2,827
Investments in debt securities	0	82,009
Accounts receivable, net	179,994	154,342
Prepaid and other current assets	123,060	132,002
Total current assets	<u>1,653,319</u>	<u>2,051,555</u>
Fixed assets, net	541,903	564,442
Goodwill	320,586	208,795
Long-term investments, net	25,638	3,726
Intangible assets, net	123,539	107,108
Restricted time deposits	143,825	40,961
Prepaid non-current assets	8,709	9,527
Other assets	34,351	12,601
Total assets	<u>\$ 2,851,870</u>	<u>\$ 2,998,715</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (“VIEs”) without recourse to the Company of \$3,102 and \$16,167, respectively, as of September 30, 2014 and December 31, 2013)	\$ 135,966	\$ 125,896
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$85,463 and \$79,041, respectively, as of September 30, 2014 and December 31, 2013)	228,192	227,018
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$41,743 and \$60,140, respectively, as of September 30, 2014 and December 31, 2013)	111,810	113,328
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$3,395 and \$3,241, respectively, as of September 30, 2014 and December 31, 2013)	123,852	90,901
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$11,088 and \$7,616, respectively, as of September 30, 2014 and December 31, 2013)	30,750	48,324
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$3 as of both September 30, 2014 and December 31, 2013)	21,500	18,813

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Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both September 30, 2014 and December 31, 2013)	0	410,331
Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$23,570 and \$253,933, respectively, as of September 30, 2014 and December 31, 2013)	91,736	79,798
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$2,950 and nil, respectively, as of September 30, 2014 and December 31, 2013)	2,950	0
Total current liabilities	<u>746,756</u>	<u>1,114,409</u>
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of \$1,529 and \$1,621, respectively, as of September 30, 2014 and December 31, 2013)	5,211	6,252
Long-term bank loans (including long-term bank loans of consolidated VIEs without recourse to the Company of nil as of both September 30, 2014 and December 31, 2013)	370,000	0
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of nil as of both September 30, 2014 and December 31, 2013)	24,820	24,835
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$2,795 and \$3,777, respectively, as of September 30, 2014 and December 31, 2013)	10,685	12,337
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$1,541 and \$4,162, respectively, as of September 30, 2014 and December 31, 2013)	1,839	4,162
Total long-term liabilities	<u>412,555</u>	<u>47,586</u>
Total liabilities	<u>1,159,311</u>	<u>1,161,995</u>
Commitments and contingencies		
<b>SHAREHOLDERS' EQUITY</b>		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 shares authorized; 38,487 shares and 38,326 shares, respectively, issued and outstanding as of September 30, 2014 and December 31, 2013)	44	44
Additional paid-in capital	652,627	601,633
Treasury stock (5,889 shares as of September 30, 2014 and December 31, 2013)	(143,858)	(143,858)
Accumulated other comprehensive income	105,800	116,304
Retained earnings	605,500	752,582
Total Sohu.com Inc. shareholders' equity	<u>1,220,113</u>	<u>1,326,705</u>
Noncontrolling interest	472,446	510,015
Total shareholders' equity	<u>1,692,559</u>	<u>1,836,720</u>
Total liabilities and shareholders' equity	<u>\$2,851,870</u>	<u>\$2,998,715</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Online advertising:				
Brand advertising	\$ 148,823	\$ 124,780	\$ 393,334	\$ 305,208
Search and others	98,437	52,305	247,810	134,528
Subtotal of online advertising revenues	<u>247,260</u>	<u>177,085</u>	<u>641,144</u>	<u>439,736</u>
Online games	150,338	161,494	467,603	497,210
Others	32,817	29,744	87,134	77,877
Total revenues	<u>430,415</u>	<u>368,323</u>	<u>1,195,881</u>	<u>1,014,823</u>
<b>Cost of revenues:</b>				
Online advertising:				
Brand advertising	83,424	63,780	230,462	160,214
Search and others	46,375	26,785	118,532	72,075
Subtotal of cost of online advertising revenues	<u>129,799</u>	<u>90,565</u>	<u>348,994</u>	<u>232,289</u>
Online games	33,949	21,750	90,798	67,381
Others	17,912	13,175	50,252	42,994
Total cost of revenues	<u>181,660</u>	<u>125,490</u>	<u>490,044</u>	<u>342,664</u>
Gross profit	<u>248,755</u>	<u>242,833</u>	<u>705,837</u>	<u>672,159</u>
<b>Operating expenses:</b>				
Product development	107,971	70,551	327,911	185,731
Sales and marketing	131,742	90,728	410,702	221,129
General and administrative	49,730	29,365	138,330	77,726
Total operating expenses	<u>289,443</u>	<u>190,644</u>	<u>876,943</u>	<u>484,586</u>
Operating profit /(loss)	<u>(40,688)</u>	<u>52,189</u>	<u>(171,106)</u>	<u>187,573</u>
Other income	896	1,533	5,340	5,596
Net interest income	7,468	7,595	24,704	19,794
Exchange difference	(610)	(1,305)	27	(5,274)
Income /(loss) before income tax benefit /(expense)	<u>(32,934)</u>	<u>60,012</u>	<u>(141,035)</u>	<u>207,689</u>
Income tax benefit /(expense)	1,036	(18,923)	2,562	(55,192)
Net income/(loss)	<u>(31,898)</u>	<u>41,089</u>	<u>(138,473)</u>	<u>152,497</u>
Less: Net income attributable to the mezzanine-classified noncontrolling interest shareholders	0	0	0	17,780
Net income /(loss) attributable to the noncontrolling interest shareholders	(4,760)	22,855	(19,138)	70,426
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	82,423	27,747	82,423
Net loss attributable to Sohu.com Inc.	<u>\$ (27,138)</u>	<u>\$ (64,189)</u>	<u>\$ (147,082)</u>	<u>\$ (18,132)</u>
Net income /(loss)	<u>(31,898)</u>	<u>41,089</u>	<u>(138,473)</u>	<u>152,497</u>
Other comprehensive income /(loss)	<u>(1,005)</u>	<u>8,249</u>	<u>(14,084)</u>	<u>33,481</u>

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Comprehensive income /(loss)	<u>(32,903)</u>	<u>49,338</u>	<u>(152,557)</u>	<u>185,978</u>
Less: Comprehensive income attributable to the mezzanine-classified noncontrolling interest shareholders	0	0	0	17,780
Comprehensive income /(loss) attributable to noncontrolling interest shareholders	<u>(4,607)</u>	<u>24,749</u>	<u>(22,718)</u>	<u>77,681</u>
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	82,423	27,747	82,423
Comprehensive income /(loss) attributable to Sohu.com Inc.	<u><u>\$(28,296)</u></u>	<u><u>\$(57,834)</u></u>	<u><u>\$(157,586)</u></u>	<u><u>\$ 8,094</u></u>
Basic net loss per share attributable to Sohu.com Inc.	<u><u>\$ (0.71)</u></u>	<u><u>\$ (1.68)</u></u>	<u><u>\$ (3.82)</u></u>	<u><u>\$ (0.47)</u></u>
Shares used in computing basic net loss per share attributable to Sohu.com Inc.	<u><u>38,485</u></u>	<u><u>38,288</u></u>	<u><u>38,457</u></u>	<u><u>38,239</u></u>
Diluted net loss per share attributable to Sohu.com Inc.	<u><u>\$ (0.74)</u></u>	<u><u>\$ (1.69)</u></u>	<u><u>\$ (3.91)</u></u>	<u><u>\$ (0.53)</u></u>
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.	<u><u>38,485</u></u>	<u><u>38,522</u></u>	<u><u>38,457</u></u>	<u><u>38,481</u></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>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Net income /(loss)	\$ (138,473)	\$ 152,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets and purchased video content in prepaid expense	99,264	53,378
Depreciation	59,059	37,997
Share-based compensation expense	29,513	5,523
Impairment of intangible assets	1,457	1,504
Reversal for allowance for doubtful accounts	(2)	(134)
Investment income from investments in debt securities	(1,370)	(4,143)
Change in fair value of put option	(2,304)	144
Change in fair value of short-term investments	(425)	(2,292)
Others	1,649	570
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(25,759)	(49,920)
Prepaid and other assets	32,825	(21,016)
Accounts payable	(4,194)	11,921
Receipts in advance and deferred revenue	(941)	12,578
Taxes payable	(17,463)	870
Deferred tax	(21,727)	2,809
Accrued and other short-term liabilities	83,676	73,100
Net cash provided by operating activities	94,785	275,386
<b>Cash flows from investing activities:</b>		
Proceeds from /(purchase of) short-term investments, net	(206,662)	32,856
Acquisition of MoboTap (net of cash acquired)	(86,539)	0
Purchase of intangible and other assets	(98,706)	(61,738)
Purchase of fixed assets	(73,440)	(84,201)
Purchase of long-term investments	(24,609)	0
Cash paid related to restricted time deposits, net	(13,554)	(121,705)
Purchase of noncontrolling interest in 7Road	0	(76,010)
Proceeds received from debt securities at maturity	82,009	0
Other cash proceeds related to investing activities	3,404	1,595
Net cash used in investing activities	(418,097)	(309,203)
<b>Cash flows from financing activities:</b>		
Issuance of common stock	516	964
Issuance of Sogou Series B Preferred Shares and Class B Ordinary Shares	0	475,472
Repurchase of Changyou American depositary shares ("ADSs")	0	(9,048)
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(47,285)	0
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(24,591)	0
Proceeds of loans from offshore banks	370,000	111,530
Repayments of loans to offshore banks	(410,194)	0
Exercise of share-based awards in subsidiary	414	1,794

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Portion of Sogou special dividend distributed to holders of Series A Preferred Shares other than Sohu	0	(139,700)
Proceeds received from early exercise of share-based awards in subsidiary	0	5,278
Payment of contingent consideration	(2,813)	(19,736)
Other cash payments related to financing activities	(4,935)	(259)
Net cash provided by /(used in) financing activities	(118,888)	426,295
Effect of exchange rate changes on cash and cash equivalents	(4,192)	14,829
Net increase /(decrease) in cash and cash equivalents	(446,392)	407,307
Cash and cash equivalents at beginning of period	1,287,288	833,535
Cash and cash equivalents at end of period	<u>\$ 840,896</u>	<u>\$1,240,842</u>
Supplemental cash flow disclosures:		
Barter transactions	\$ 721	\$ 380

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, 2014**

(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	\$1,836,720	\$ 44	\$601,633	\$(143,858)	\$ 116,304	\$ 752,582	\$ 510,015
Issuance of common stock	516	0	516	0	0	0	0
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(47,285)	0	26,276	0	0	(27,747)	(45,814)
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(24,591)	0	0	0	0	0	(24,591)
Exercise of right to repurchase from China Web	1,584	0	1,584	0	0	0	0
Purchase of equity interests of a VIE from a third party shareholder	(809)	0	11	0	0	0	(820)
Share-based compensation expense	29,485	0	13,048	0	0	0	16,437
Settlement of share-based awards in subsidiary	798	0	11,336	0	0	0	(10,538)
Acquisition of MoboTap	53,424	0	0	0	0	0	53,424
Acquisition of noncontrolling interest in a subsidiary	(4,726)	0	(1,777)	0	0	0	(2,949)
Net income /(loss) attributable to Sohu.com Inc. and noncontrolling interest shareholders	(138,473)	0	0	0	0	(119,335)	(19,138)
Accumulated other comprehensive income /(loss)	(14,084)	0	0	0	(10,504)	0	(3,580)
Ending balance	<u>\$1,692,559</u>	<u>\$ 44</u>	<u>\$652,627</u>	<u>\$(143,858)</u>	<u>\$ 105,800</u>	<u>\$ 605,500</u>	<u>\$ 472,446</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)**

**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 /(loss) attributable to Sohu.com Inc. and noncontrolling interest shareholders	134,717	0	0	0	0	64,291	70,426
Accumulated other comprehensive income /(loss)	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.**  
**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 Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices in the People’s Republic of China (the “PRC” or “China”). The core businesses of the Company, together with its wholly-owned and majority-owned subsidiaries and variable interest entities (collectively the “Sohu Group” or the “Group”), are online advertising and online games.

***Online Advertising***

The online advertising business consists of the brand advertising business as well as the search and others business.

***Brand Advertising Business***

The Sohu Group’s brand advertising business offers to its users, over its matrices of Chinese language online media content and services, various products and services across multiple Internet-enabled devices, such as PCs, mobile phones and tablets. It also offers advertisements on Sohu Group Web properties to companies seeking to increase their brand awareness online.

The majority of the Sohu Group’s products and services are provided on the following platforms:

- Sohu.com, a leading mass portal and media destination;
- Tv.sohu.com, a leading online video Website;
- Focus.cn, a top real estate Website; and
- 17173.com, a leading game information portal.

***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 wholly-owned subsidiary of Tencent Holdings Limited (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”).

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.

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 which the parties 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 the aggregate amount of \$301 million, of which Sohu Search received \$161 million, Photon received \$43 million, and China Web received \$97 million.

On December 2, 2013, Tencent invested \$1.5 million in cash in Beijing Sogou Information Service Co., Ltd. (“Sogou Information”), a VIE of Sogou, as additional consideration in connection with the Sogou-Tencent Transactions.

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On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of \$47.3 million.

In June 2014, Sogou repurchased approximately 4.2 million of its Class A Ordinary Shares from noncontrolling shareholders, some of whom are employees of the Group, for an aggregate purchase price of \$41.6 million.

Pursuant to the Shareholders Agreement, Sohu will hold approximately 52% of the total voting power for the election of the Board of Directors of Sogou, assuming that the remaining repurchase options 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 be available for grants to Sohu management and key employees (the "Sohu Management Sogou 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.

### *Online Games*

The online game business is conducted by Sohu's majority-owned subsidiary Changyou.com Limited ("Changyou"). Changyou is a leading online game developer and operator in China as measured by the popularity of its massively multiplayer online game ("MMOG") Tian Long Ba Bu ("TLBB") and its Web games DDTank and Wartune (also known as "Shen Qu"), which Changyou developed in-house. Changyou engages in the development, operation and licensing of online games for PCs and mobile devices. Changyou's online games include 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, which are played on mobile devices with an Internet connection.

### *Basis of Consolidation and Recognition of Noncontrolling Interest*

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 three VIEs that are 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, 2013.

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, 2014 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

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### *Reclassification of Mobile Business to Others Business*

Commencing in the first quarter of 2014, the Group reclassified the mobile business to the others business, because the Group did not consider the mobile business to be significant enough to constitute a separately-disclosed revenue stream. The mobile business offers mobile-related services and mobile products, in cooperation with China mobile network operators, to mobile phone users and to China mobile network operators. Most the Group's mobile revenues are contributed by services provided to mobile phone users through products such as short messaging services ("SMS"), ring-back tones ("RBT"), and interactive voice response ("IVR"). To conform to current period presentations, certain comparative figures for prior periods have been reclassified accordingly. Such reclassifications amounted to \$14.5 million and \$43.6 million, respectively, for revenues and \$8.1 million and \$26.3 million, respectively, for costs for the three months and nine months ended September 30, 2013.

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

In connection with the reclassification of the mobile business to the others business, as the CODM no longer reviewed the mobile business as a separate segment, the Group reclassified the mobile segment to the others segment from the first quarter of 2014. There are four reportable 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) and the others business. The Group has restated the presentation of its reportable segments for prior periods to conform to the current presentation.

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

	<b>Three Months Ended September 30, 2014</b>						<b>Consolidated</b>
	<b>Brand Advertising and Others</b>		<b>Brand Advertising and Others</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	
	<b>Brand Advertising</b>	<b>Others</b>					
Revenues (1)	\$ 135,301	\$ 12,325	\$ 147,626	\$ 106,158	\$ 180,819	\$ (4,188)	\$ 430,415
Segment cost of revenues	(79,286)	(5,831)	(85,117)	(46,463)	(50,278)	667	(181,191)
Segment gross profit /(loss)	<u>\$ 56,015</u>	<u>\$ 6,494</u>	62,509	59,695	130,541	(3,521)	249,224
SBC (2) in cost of revenues			(218)	(193)	(58)	0	(469)
Gross profit			<u>62,291</u>	<u>59,502</u>	<u>130,483</u>	<u>(3,521)</u>	<u>248,755</u>
Operating expenses:							
Product development			(23,767)	(26,113)	(52,827)	788	(101,919)
Sales and marketing			(57,470)	(24,570)	(52,930)	4,165	(130,805)
General and administrative			(12,159)	(3,208)	(26,832)	(189)	(42,388)
SBC (2) in operating expenses			(922)	(13,094)	(456)	141	(14,331)
Total operating expenses			<u>(94,318)</u>	<u>(66,985)</u>	<u>(133,045)</u>	<u>4,905</u>	<u>(289,443)</u>
Operating profit /(loss)			(32,027)	(7,483)	(2,562)	1,384	(40,688)
Other income /(expense)			1,860	(4)	283	(1,243)	896
Net interest income			1,966	860	4,642	0	7,468
Exchange difference			(15)	4	(599)	0	(610)
Income /(loss) before income tax benefit /(expense)			<u>(28,216)</u>	<u>(6,623)</u>	<u>1,764</u>	<u>141</u>	<u>(32,934)</u>
Income tax benefit /(expense)			<u>1,327</u>	<u>0</u>	<u>(291)</u>	<u>0</u>	<u>1,036</u>
Net income /(loss)			<u>\$ (26,889)</u>	<u>\$ (6,623)</u>	<u>\$ 1,473</u>	<u>\$ 141</u>	<u>\$ (31,898)</u>

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

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

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Three Months Ended September 30, 2013

	Brand Advertising and Others						Consolidated
	Brand Advertising	Others	Brand Advertising and Others	Sogou	Changyou	Eliminations	
Revenues (1)	\$ 110,008	\$21,560	\$ 131,568	\$ 56,940	\$183,068	\$ (3,253)	\$ 368,323
Segment cost of revenues	(60,512)	(8,179)	(68,691)	(26,687)	(30,093)	109	(125,362)
Segment gross profit /(loss)	<u>\$ 49,496</u>	<u>\$13,381</u>	62,877	30,253	152,975	(3,144)	242,961
SBC (2) in cost of revenues			(59)	(24)	(45)	0	(128)
Gross profit			<u>62,818</u>	<u>30,229</u>	<u>152,930</u>	<u>(3,144)</u>	<u>242,833</u>
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			<u>(88,790)</u>	<u>(36,714)</u>	<u>(71,431)</u>	<u>6,291</u>	<u>(190,644)</u>
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
Net 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			<u>137,867</u>	<u>(6,232)</u>	<u>86,423</u>	<u>(158,046)</u>	<u>60,012</u>
Income tax expense			(5,328)	(0)	(13,595)	0	(18,923)
Net income /(loss)			<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 revenues from 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.

Nine Months Ended September 30, 2014

	Brand Advertising and Others						Consolidated
	Brand Advertising	Others	Brand Advertising and Others	Sogou	Changyou	Eliminations	
Revenues (1)	\$ 361,556	\$ 39,139	\$ 400,695	\$ 267,081	\$ 539,353	\$ (11,248)	\$1,195,881
Segment cost of revenues	(218,737)	(19,880)	(238,617)	(118,152)	(132,941)	1,120	(488,590)
Segment gross profit /(loss)	<u>\$ 142,819</u>	<u>\$ 19,259</u>	162,078	148,929	406,412	(10,128)	707,291
SBC (2) in cost of revenues			(562)	(706)	(186)	0	(1,454)
Gross profit			<u>161,516</u>	<u>148,223</u>	<u>406,226</u>	<u>(10,128)</u>	<u>705,837</u>
Operating expenses:							
Product development			(68,099)	(75,582)	(171,362)	3,131	(311,912)
Sales and marketing			(165,408)	(49,919)	(202,890)	11,266	(406,951)
General and administrative			(33,549)	(8,395)	(70,452)	(533)	(112,929)
SBC (2) in operating expenses			(8,437)	(36,523)	(1,093)	902	(45,151)
Total operating expenses			<u>(275,493)</u>	<u>(170,419)</u>	<u>(445,797)</u>	<u>14,766</u>	<u>(876,943)</u>
Operating profit /(loss)			(113,977)	(22,196)	(39,571)	4,638	(171,106)
Other income /(expense)			5,287	2,455	1,334	(3,736)	5,340
Net interest income			6,515	1,714	16,475	0	24,704
Exchange difference			(103)	(159)	289	0	27
Income /(loss) before income tax benefit/ (expense)			<u>(102,278)</u>	<u>(18,186)</u>	<u>(21,473)</u>	<u>902</u>	<u>(141,035)</u>
Income tax benefit/ (expense)			(2,022)	0	4,584	0	2,562
Net income /(loss)			<u>\$(104,300)</u>	<u>\$ (18,186)</u>	<u>\$ (16,889)</u>	<u>\$ 902</u>	<u>\$ (138,473)</u>

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

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

	<b>Nine Months Ended September 30, 2013</b>						<b>Consolidated</b>
	<b>Brand Advertising and Others</b>		<b>Brand Advertising and Others</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	
	<b>Brand Advertising</b>	<b>Others</b>	<b>Brand Advertising and Others</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues (1)	\$ 277,974	\$ 57,800	\$ 335,774	\$ 146,144	\$ 543,024	\$ (10,119)	\$ 1,014,823
Segment cost of revenues	(151,105)	(28,522)	(179,627)	(71,972)	(91,098)	329	(342,368)
Segment gross profit /(loss)	<u>\$ 126,869</u>	<u>\$ 29,278</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)			(80,090)	(11,855)	276,369	3,149	187,573
Other income /(expense) (3)			164,533	59	2,197	(161,193)	5,596
Net 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			88,966	(10,763)	287,530	(158,044)	207,689
Income tax expense			(11,079)	(6)	(44,107)	0	(55,192)
Net income /(loss)			<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 revenues from 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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As of September 30, 2014

	<u>Brand Advertising and Others</u>	<u>Sogou</u>	<u>Changyou</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 460,765	\$202,826	\$ 177,305	\$ 0	\$ 840,896
Accounts receivable, net	124,964	12,420	42,702	(92)	179,994
Fixed assets, net	252,777	44,512	244,614	0	541,903
Total assets (1)	\$1,148,385	\$279,651	\$1,572,097	\$ (148,263)	\$2,851,870

Note (1): The elimination for segment assets mainly consists of elimination of long-term investments in subsidiaries and consolidated VIEs.

As of December 31, 2013

	<u>Brand Advertising and Others</u>	<u>Sogou</u>	<u>Changyou</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 498,058	\$240,746	\$ 548,484	\$ 0	\$1,287,288
Accounts receivable, net	102,823	15,705	35,996	(182)	154,342
Fixed assets, net	257,307	60,461	246,674	0	564,442
Total assets (1)	\$1,221,003	\$350,256	\$1,585,212	\$ (157,756)	\$2,998,715

Note (1): The elimination for segment assets mainly consists of elimination of long-term investments in subsidiaries and consolidated VIEs.

### 3. Share-Based Compensation Expense

Sohu, Changyou, Sogou, and Fox Video Limited (“Sohu Video”) have incentive plans, and prior to June 28, 2013 7Road.com Limited (“7Road”) had an incentive plan, for the granting of share-based awards, including common stock or 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 expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, share-based compensation expense is recognized by Sogou in the consolidated statements of comprehensive income based on the then-current fair value at each reporting date. For Sogou Class A Ordinary Shares repurchased from employees of the Group in the second quarter of 2014, share-based compensation expense is recognized by the Sohu Group in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value at the repurchase date of the Sogou Class A Ordinary Shares that the Group repurchased. See Note 11 - Sohu.com Inc. Shareholders’ Equity.

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 to management and key employees of the video division and to Sohu management. As of September 30, 2014, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been made, of which options for the purchase of 4,972,800 ordinary shares were vested.

For purposes of ASC 718-10-25, no grant date may be established until a mutual understanding can be reached between Sohu Video and the recipients as to the option awards’ key terms and conditions, and such mutual understanding cannot be reached until the fair value of the awards is determinable and can be accounted for. No grant date could be determined as of September 30, 2014, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients.

Under ASC 718-10-55, if the service inception date precedes the grant date for equity-classified awards, compensation expense should be accrued beginning on the service inception date and re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the awards. The estimate of the awards’ fair value would be fixed in the period in which the grant date occurs, and cumulative compensation expense should be adjusted based on the fair value at the grant date. Management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date.



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For the three and nine months ended September 30, 2014, negative \$0.1 million and positive \$4.1 million, respectively, of share-based compensation expense was recognized as costs and expenses in the consolidated statements of comprehensive income. The share-based compensation expense was recognized for vested awards based on the difference between their re-measured fair value as of September 30, 2014 and the fair value as of the previous reporting date.

### **7Road Share-based Awards**

On July 10, 2012, 7Road adopted the 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 with noncontrolling shareholders to acquire all of the outstanding ordinary shares of 7Road held by the 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 the 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.

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.

As the original awards of restricted share units made under the 7Road 2012 Share Incentive Plan included as a vesting condition the completion of an initial public offering (an “IPO”), which is not considered probable until it occurs, no share-based compensation expense was recognized for the fair value of the original awards. Incremental compensation expense, which is not classified as share-based compensation expense, is equal to the fair values of the two new compensation schemes included in the exchange program as of the date of the modification resulting from the exchange program.

For Scheme I, compensation expense of \$3.9 million was recognized as of September 30, 2014 with respect to the modification, and \$0.8 million will be recognized in the consolidated statements of comprehensive income ratably over the remaining vesting period of the awards. For Scheme II, the incremental compensation expense varies depending on 7Road’s financial performance.

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

Share-based compensation expense was recognized in costs and expenses for the three and nine months ended September 30, 2014 and 2013, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Share-based compensation expense				
Cost of revenues	\$ 469	\$ 128	\$ 1,454	\$ 296
Product development expenses	6,052	912	15,999	1,670
Sales and marketing expenses	937	359	3,751	732
General and administrative expenses	7,342	1,799	25,402	2,825
	<u>\$14,800</u>	<u>\$ 3,198</u>	<u>\$46,606</u>	<u>\$5,523</u>

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

Share-based compensation expense	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
For Sohu share-based awards	\$ 1,337	\$ 730	\$ 5,242	\$2,313
For Changyou share-based awards	514	312	1,253	884
For Sogou share-based awards (1)	13,098	2,156	36,033	2,326
For Sohu Video share-based awards	(149)	0	4,078	0
	<u>\$ 14,800</u>	<u>\$ 3,198</u>	<u>\$46,606</u>	<u>\$5,523</u>

Note (1): Includes compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, and compensation expense equal to the excess of the repurchase price paid to employees over the fair value at the repurchase date of the Sogou Class A Ordinary Shares that the Group repurchased.

There was no capitalized share-based compensation expense for the three and nine months ended September 30, 2014 and 2013.

#### 4. Changyou Employee Incentive Plans

On February 8, 2014, Changyou's Board of Directors approved three new employee incentive plans with terms of 10 years, effective January 1, 2014, under which Changyou may pay compensation to employees based on Changyou's profits, or the profits of specified projects. Eligible employees will receive a cash award from the plans as a bonus based on the number of employee incentive instruments they hold in the plans.

Under two of these three plans, Changyou may pay compensation to employees based on Changyou's profits. Changyou will distribute to eligible employees who participate in the plans up to 5% of Changyou's annual adjusted net profits. Combined, these two plans will distribute up to 10% of Changyou's annual adjusted net profits. Eligible employees will participate in these plans by paying an amount to purchase instruments that will entitle them, while they are employed by Changyou, to receive annual compensation under the plans. After four years of service to Changyou, employees who participate in either of these two plans will be entitled to sell their instruments to other employees at any time during their employment with Changyou at a price negotiated between the two employees, and by doing so would be compensated with the present value of their expected future cash bonuses for the remaining period of the incentive plans. Management concluded that compensation expense associated with these two plans should be accounted for by analogy to deferred compensation arrangements, and that the present value of the amounts forecasted to be distributed under the plans should be amortized over the first four years after the effective date of the plans, before the instruments are first allowed to be transferred to other employees; that the present value of future cash bonuses in the remaining period should be re-measured at each reporting date; that the gain or loss resulting from the re-measurement in the first four years should be amortized over the remaining portion of the four-year period; and that the gain or loss after the four-year period should be booked immediately upon re-measurement at each reporting date after the four-year period. For the three and nine months ended September 30, 2014, compensation expense recognized for these two plans was \$1.5 million and \$4.3 million, respectively.

The third employee incentive plan is structured to allow eligible employees to receive up to 20% of the annual adjusted net profits of projects that they work on. Unlike under the first two plans, certain of the incentive instruments to be issued under this plan will permit participating employees to sell the instruments to other employees at any time during their employment, and certain of the incentive instruments will not permit participating employees to sell their instruments to other employees. Management concluded that compensation expense in the former case should be accounted for by analogy to deferred compensation arrangements, and accordingly should be accrued as of the effective date of the plan at the then present value of the amounts forecasted to be distributed under the plan; that the gain or loss resulting from the re-measurement of the cash bonus in the remaining period of the plan should be booked immediately upon re-measurement; and that compensation expense in the latter case should be recognized when the amount of relevant distributions under these plans is determined and Changyou's obligations are established each year. For the three and nine months ended September 30, 2014, compensation expense recognized for this plan was \$1.2 million and \$27.9 million, respectively.

## 5. Fair Value Measurements

### 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.

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of September 30, 2014 (in thousands):

Items	As of September 30, 2014	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	\$ 473,621	\$ 0	\$ 473,621	\$ 0
Restricted time deposits	443,686	0	443,686	0
Short-term investments	209,508	0	209,508	0
Available-for-sale equity securities	13,594	13,594	0	0
<b>Total</b>	<b>\$ 1,140,409</b>	<b>\$ 13,594</b>	<b>\$ 1,126,815</b>	<b>\$ 0</b>

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2013 (in thousands):

Items	As of December 31, 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	\$ 359,289	\$ 0	\$ 359,289	\$ 0
Restricted time deposits	434,048	0	434,048	0
Short-term investments	2,827	0	2,827	0
Investments in debt securities	82,009	0	0	82,009
<b>Total</b>	<b>\$ 878,173</b>	<b>\$ 0</b>	<b>\$ 796,164</b>	<b>\$ 82,009</b>
Put option recognized as other short-term liability	\$ 3,888	\$ 0	\$ 0	\$ 3,888

The following table sets forth the reconciliation of the fair value measurements using significant unobservable inputs (level 3) from December 31, 2013 to September 30, 2014 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Investments in Debt Securities	Put Option
Beginning balance at December 31, 2013	\$ 82,009	\$ 3,888
Transactions:		
Initial recognition	0	0
Change in fair value	0	(2,304)
Currency translation adjustment	(736)	0
Financial instruments matured /exercised	(81,273)	(1,584)
Ending balance at September 30, 2014	<u>\$ 0</u>	<u>\$ 0</u>

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### ***Cash Equivalents***

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

### ***Restricted Time Deposits***

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

### ***Changyou Loans from Offshore Banks, Secured by Time Deposits***

Commencing in 2012, Changyou drew down loans from offshore branches of certain banks for the purposes of expediting the payment of a special one-time cash dividend to its shareholders, providing working capital to support its overseas operations, and funding its acquisitions and its share repurchase program. These bank loans are secured by an equivalent or greater amount of RMB deposits by Changyou in the onshore branches of such banks. The loans from the offshore branches of the lending banks are classified as long-term bank loans according to their payment terms.

As of September 30, 2014, the total amount of the bank loans was \$370 million, all of which carried a floating rate of interest based on the London Inter-Bank Offered Rate ("LIBOR"). For the three and nine months ended September 30, 2014, interest income from the restricted time deposits securing the loans was \$4.1 million and \$12.0 million, respectively, and interest expense on the bank loans was \$1.7 million and \$4.6 million, respectively. 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.

### ***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, 2014, the Sohu Group's investment in financial instruments was \$210 million. The investment instruments were issued by commercial banks in China, and have a variable interest rate indexed to performance of underlying assets. Since these investments' maturity dates are within one year, they are classified as short-term investments. For the three and nine months ended September 30, 2014, the Sohu Group recorded in the consolidated statements of comprehensive income changes in the fair value of short-term investments in the amount of both \$0.4 million. For the three and nine months ended September 30, 2013, the Group recorded in the consolidated statements of comprehensive income changes in the fair value of short-term investments in the amount of \$0.8 million and \$2.3 million, respectively.

### ***Available-for-Sale Equity Securities***

Available-for-sale equity securities are valued using the market approach based on the quoted prices in active markets at the reporting date. The Group classifies the valuation techniques that use these inputs as Level 1 of fair value measurements. On August 12, 2014, Sohu acquired approximately 6% of the total outstanding common shares of Keyeast Co., Ltd., a Korean-listed company, for a purchase price of \$14.9 million. The Sohu Group classified this investment as available-for-sale equity securities under long-term investments, and reported it at fair value. As of September 30, 2014, the fair value of the available-for-sale equity securities was \$13.6 million. The unrealized loss representing the change in fair value of \$1.3 million was recorded as a deduction from accumulated other comprehensive income in the Sohu Group's consolidated balance sheets.

### ***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 six-month periods. The Debtor’s obligations on the debt were secured by a pledge from the Debtor’s parent company of its entire equity interest in the Debtor. The Company extended the maturity of the security, at an interest rate of 6.8% per annum, for successive six-month periods through March 2014. Under the terms of the security, the Company had 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. On March 31, 2014, the Company neither extended the debt security nor exercised the option, and accordingly the \$81.3 million (or RMB0.5 billion) principal amount of the security was repaid to the Company on that date.

For the three and nine months ended September 30, 2014, interest income generated from this debt security amounted to nil and \$1.37 million, respectively. 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.

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, 2014 and 2013, 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 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. On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of \$47.3 million.

Sogou’s repurchase options with Photon and China Web were initially recognized in additional paid-in capital in the Sohu Group’s consolidated balance sheets at fair value when the agreements were signed. Any subsequent changes in the fair values of the repurchase options were not and will not be recognized. On March 24, 2014, the repurchase option with China Web was exercised by Sogou. As of September 30, 2014, the remaining balance for the repurchase option with Photon in additional paid-in capital was \$1.2 million, based on the fair value of the repurchase option on September 16, 2013.

China Web’s put option with Sogou was initially recognized in other short-term liabilities in the Sohu Group’s consolidated balance sheets at fair value when the agreement was signed. Subsequent changes in the fair value of the put option were recognized quarterly in other income /(expense) in the Sohu Group’s consolidated statements of comprehensive income. After Sogou’s repurchase of the Series A Preferred Shares from China Web on March 24, 2014, the other short-term liabilities recognized with respect to China Web were reversed to zero.

Management determined the fair values of the repurchase options with Photon and China Web when the agreements were signed, and of the put option with China Web before Sogou exercised the repurchase option, using the binominal model, with a discount for lack of marketability, given that the repurchase options and the put option were not publicly traded at the time of grant. Management made the determination with the assistance of a qualified professional appraiser using management’s estimates and assumptions. The Sohu Group classifies the valuation techniques that use these inputs as Level 3 of fair value measurements.

### ***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.

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

### *Prepaid Non-current Assets and Long-term Payables*

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

## **6. Goodwill**

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

	<u>Brand Advertising and others</u>	<u>Sogou</u>	<u>Changyou</u>	<u>Total</u>
Balance as of December 31, 2013				
Goodwill	\$ 58,042	\$6,290	\$185,452	\$249,784
Accumulated impairment losses	(35,788)	0	(5,201)	(40,989)
	<u>\$ 22,254</u>	<u>\$6,290</u>	<u>\$180,251</u>	<u>\$208,795</u>
Transactions in 2014				
Acquisition of MoboTap	0	0	113,040	113,040
Measurement period adjustment of goodwill for the acquisition of Soso search-related businesses from Tencent	0	42	0	42
Foreign currency translation adjustment	(2)	(58)	(1,231)	(1,291)
Balance as of September 30, 2014	<u>\$ 22,252</u>	<u>\$6,274</u>	<u>\$292,060</u>	<u>\$320,586</u>
Balance as of September 30, 2014				
Goodwill	\$ 58,040	\$6,274	\$297,261	\$361,575
Accumulated impairment losses	(35,788)	0	(5,201)	(40,989)
	<u>\$ 22,252</u>	<u>\$6,274</u>	<u>\$292,060</u>	<u>\$320,586</u>

## **7. Taxation**

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

The Group did not have any penalties or significant interest associated with tax positions for the three and nine months ended September 30, 2014, nor did the Group have any significant unrecognized uncertain tax positions for the three and nine months ended September 30, 2014.

### **PRC Corporate Income Tax**

The PRC Corporate Income Tax Law (the “CIT Law”) applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to High and New Technology Enterprises (“HNTEs”). Under this preferential tax treatment, HNTEs can enjoy an income tax rate of 15% for three years, but need to re-apply after the end of the three-year period. In addition, the CIT Law and its implementing regulations provide that a “Software Enterprise” can enjoy an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a “Key National Software Enterprise” can enjoy a further reduced preferential income tax rate of 10% for two years, but needs to re-apply after the end of the two-year period.

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### *Entities Qualified as HNTEs*

As of September 30, 2014, the following entities were qualified as HNTEs and were entitled to an income tax rate of 15%, except that Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”) was entitled to an income tax rate of 10% because it was also qualified as a Key National Software Enterprise and was in an initial preferential period.

### Corporate

- Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”). Sohu Internet will need to re-apply for HNTE qualification in 2015.

### For the Online Advertising Business

#### Brand Advertising Business

- Beijing Sohu New Media Information Technology Co., Ltd. (“Sohu Media”). Sohu Media re-applied for HNTE qualification in the third quarter of 2014 and got approval in October, it is entitled to continue to enjoy the beneficial tax rate as HNTE for the year of 2014.

#### Search and Others Business

- Beijing Sogou Technology Development Co., Ltd. (“Sogou Technology”). Sogou Technology re-applied for HNTE qualification in the third quarter of 2014 and got approval in October, it is entitled to continue to enjoy the beneficial tax rate as HNTE for the year of 2014.
- Sogou Information. Sogou Information will need to re-apply for HNTE qualification in 2015.

### For the Online Game Business

- AmazGame. AmazGame re-applied for HNTE qualification in the third quarter of 2014. Pending approval of the re-application, it will be entitled to continue to enjoy the beneficial tax rate as if it had already qualified as HNTE for 2014.
- Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”). Gamease re-applied for HNTE qualification in the third quarter of 2014. Pending approval of the re-application, it will be entitled to continue to enjoy the beneficial tax rate as if it had already qualified as HNTE for 2014.
- Shenzhen 7Road Technology Co., Ltd. (“Shenzhen 7Road”). Shenzhen 7Road re-applied for HNTE qualification in the third quarter of 2014 and got approval in October, it is entitled to continue to enjoy the beneficial tax rate as HNTE for the year of 2014.

### For the Others Business

- Beijing Sohu New Era Information Technology Co., Ltd. (“Sohu Era”). Sohu Era re-applied for HNTE qualification in the third quarter of 2014. Pending approval of the re-application, it will be entitled to continue to enjoy the beneficial tax rate as if it had already qualified as HNTE for 2014.

### *Entities Qualified as Software Enterprises*

#### For the Online Advertising Business—Brand Advertising Business

- Beijing Sohu New Momentum Information Technology Co., Ltd. (“Sohu New Momentum”), which was in its first income tax exemption year as a Software Enterprise.

#### For the Online Game Business

- AmazGame, which was qualified as a “Key National Software Enterprise” and enjoyed a preferential income tax rate of 10%. AmazGame will need to re-apply for Key National Software Enterprise qualification in 2015.
- Shenzhen 7Road, which was also qualified as an HNTE and was entitled to an income tax rate of 15% since it had passed the three-year preferential period as a Software Enterprise.
- Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”), which was entitled to an income tax rate of 12.5%.
- ICE Information Technology (Shanghai) Co., Ltd. (“ICE Information”) which was not subject to income tax, as it incurred losses.

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- Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”), which was entitled to an income tax rate of 12.5%.
- Shenzhen 7Road Network Technologies Co., Ltd. (“7Road Technology”), which was in its second income tax exemption year as a Software Enterprise.

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

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

In order to fund the distribution of a dividend to shareholders of Sohu’s majority-owned subsidiary Changyou, Changyou’s Board of Directors determined to cause one of its PRC subsidiaries to declare and distribute a cash dividend of all of its 2012 stand alone earnings and half of its 2013 and 2014 stand alone earnings to its direct overseas parent company, Changyou HK. With the exception of that dividend, the Sohu Group does not intend to have any of its PRC subsidiaries distribute any undistributed profits of such subsidiaries to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries for their PRC operations.

As of September 30, 2014, Changyou had accrued deferred tax liabilities in the amount of \$21.5 million for PRC withholding tax.

### ***PRC Value-Added Tax and Business Tax***

Effective September 1, 2012, a pilot program (the “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. All the Sohu Group’s brand advertising and search revenues as well as certain online game revenues were subject to the Pilot Program.

VAT payable on advertising and search revenues as well as online game revenues from Changyou’s Web game operations that were not developed in house is the difference between the output VAT (at a rate of 6%) and available input VAT amount (at the rate applicable to the supplier). Other online game revenues were not affected by the Pilot Program. Before and after the Pilot Program, revenues from MMOG operations are subject to a 5% Business Tax, and revenues of 7Road that deemed to be derived from the sale of software are subject to VAT. VAT payable by 7Road is at a rate of 17%, with a 14% immediate tax refund irrespective of the availability of any input VAT, resulting in a net rate of 3%.

The Group adopted the net presentation method for its brand advertising and search businesses both before and after the implementation of the Pilot Program. The Group adopted the gross presentation method for revenues of 7Road deemed to be derived from the sale of software both 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%. To the extent that it has U.S. taxable income, the Sohu Group accrues U.S. corporate income tax in its consolidated statements of comprehensive income and makes estimated tax payments as and when required by U.S. law.

### ***Uncertain Tax Positions***

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



## **8. Commitments and Contingencies**

### ***Unconditional Obligations***

As of September 30, 2014, the Sohu Group had commitments for bandwidth purchases in the amount of \$62.9 million, commitments for video content purchases in the amount of \$52.0 million, commitments for purchases of games developed by third-parties in the amount of \$43.7 million, commitments for purchases of cinema advertisement slot rights in the amount of \$40.1 million, commitments for operating leases in the amount of \$39.7 million, and commitments for other content and service purchases in the amount of \$22.9 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.

### ***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, 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 10 - VIE.

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. Contingent Consideration**

Contingent consideration consists of the fair value of potential payments related to two acquisitions made by Changyou.

Changyou's acquisition of Beijing Doyo Internet Technology Co., Ltd. ("Doyo"), included a contingent consideration arrangement that requires additional consideration to be paid by Changyou based on the achievement of specified performance milestones by Doyo for the fiscal years 2013 through 2015. The range of the undiscounted amounts Changyou could pay under the contingent consideration agreement is between nil and \$7.3 million. The fair value of the contingent consideration, in the amount of \$4.8 million, was recognized on the acquisition date using the income approach /discounted cash flow method with a scenario analysis applied. There were no indemnification assets involved.

Changyou's acquisition of the RaidCall business, included a contingent consideration arrangement that gives Changyou the right to acquire additional shares of TalkTalk Limited ("TalkTalk") at no cost if specified conditions occur through the 2014 fiscal year. The range of the additional shares of TalkTalk that Changyou could acquire under the contingent consideration arrangement is between nil and 7.5% of the outstanding shares of TalkTalk on a post-issuance fully-diluted basis. The fair value of the contingent consideration recognized on the acquisition date was nil, as management determined that it is unlikely that the specified conditions will occur and that as a result the fair value and the financial impact on recognition of the noncontrolling interest was zero.

For the three and nine months ended September 30, 2014, based on management's assessment, there were no changes in the estimated fair values of these contingent consideration arrangements.

## 10. VIE

### *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 three VIEs that are 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, the Sohu Group's Chairman and Chief Executive Officer, or other executive officers and employees of the Sohu Group identified below. Capital for the consolidated VIEs was funded by the Sohu Group through loans provided to Dr. Charles Zhang and 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, 2014, the aggregate amount of these loans was \$14.9 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, 2014, the registered capital and PRC statutory reserves of the consolidated VIEs totaled \$84.0 million. As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the consolidated VIEs do not have recourse to the general credit of the Sohu Group for any of the liabilities of the consolidated VIEs. Currently there is no contractual arrangement that could require the Sohu Group to provide additional financial support to the consolidated VIEs. As the Sohu Group is conducting certain business in the PRC mainly through the consolidated VIEs, the Group may provide such support on a discretionary basis in the future, which could expose the Group to a loss.

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

### *Basic Information*

#### Corporate

##### High Century

Beijing Century High Tech Investment Co., Ltd. ("High Century") was incorporated in 2001. As of September 30, 2014, the registered capital of High Century was \$4.6 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.

##### Heng Da Yi Tong

Beijing Heng Da Yi Tong Information Technology Co., Ltd. ("Heng Da Yi Tong"), formally known as "Beijing Sohu Entertainment Culture Media Co., Ltd." ("Sohu Entertainment"), was incorporated in 2002. As of September 30, 2014, the registered capital of Heng Da Yi Tong was \$1.2 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.

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### Sohu Internet

Sohu Internet was incorporated in 2003. As of September 30, 2014, the registered capital of Sohu Internet was \$1.6 million and High Century and Heng Da Yi Tong held 75% and 25% interests, respectively, in this entity.

### SohuPay

SohuPay Science and Technology Co., Ltd. (“SohuPay”) was incorporated in January 2014. As of September 30, 2014, the registered capital of SohuPay was \$16.4 million and Sohu Internet held 100% of the equity interests in this entity.

## For the Online Advertising Business

### Brand Advertising Business

#### Donglin

Beijing Sohu Donglin Advertising Co., Ltd. (“Donglin”) was incorporated in 2010. As of September 30, 2014, 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. As of September 30, 2014, 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. As of September 30, 2014, the registered capital of Focus Yiju was \$1.6 million and High Century held 100% of the equity interests in this entity.

#### Tianjin Jinhu

Tianjin Jinhu Culture Development Co., Ltd. (“Tianjin Jinhu”) was incorporated in 2011. As of September 30, 2014, the registered capital of Tianjin Jinhu was \$0.5 million and Ye Deng and Xuemei Zhang each held a 50% interest in this entity.

#### Focus Interactive

Beijing Focus Interactive Information Service Co., Ltd. (“Focus Interactive”) was incorporated in July 2014. As of September 30, 2014, the registered capital of Focus Interactive was \$1.6 million and High Century held 100% of the equity interests in this entity.

#### Focus Technology

Beijing Focus Xin Gan Xian Information Technology Co., Ltd. (“Focus Technology”) was incorporated in August 2014. As of September 30, 2014, the registered capital of Focus Technology was \$0.8 million and Focus Interactive held 100% of the equity interests in this entity.

#### Focus Real Estate

Beijing Focus Real Estate Agency Co., Ltd. (“Focus Real Estate”) was incorporated in August 2014. As of September 30, 2014, the registered capital of Focus Real Estate was \$0.2 million and Focus Interactive held 100% of the equity interests in this entity.

### Search and Others Business

#### Sogou Information

Sogou Information was incorporated in 2005. As of September 30, 2014, the registered capital of Sogou Information was \$2.5 million and Xiaochuan Wang, Sogou’s Chief Executive Officer, High Century and Tencent held 10%, 45% and 45% interests, respectively, in this entity.

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### Shi Ji Guang Su

Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (“Shi Ji Guang Su”) was acquired in September 2013. As of September 30, 2014, the registered capital of Shi Ji Guang Su was \$3.2 million and Sogou Information held 100% of the equity interests in this entity.

### For the Online Game Business

#### Gamease

Gamease was incorporated in 2007. As of September 30, 2014, 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, 2014, 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, 2014, 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.

#### Zhi Hui You

Beijing Zhi Hui You Information Technology Co., Ltd. (“Zhi Hui You”) was incorporated in 2011. Initially Jing Zhou, who is a Sohu employee, and a third party entity each held 50% of the equity interests in this entity. In the first quarter of 2014, Jing Zhou and the third party entity transferred all of their equity interests in Zhi Hui You to Changyou’s VIE Guanyou Gamespace. As of September 30, 2014, the registered capital of Zhi Hui You was \$1.6 million and Guanyou Gamespace held 100% of the equity interests in this entity.

#### Shenzhen 7Road

68.258% of the equity interests of Shenzhen 7Road were acquired by Gamease in 2011. The remaining 31.742% of the equity interests of Shenzhen 7Road were acquired by Gamease on May 1, 2013. As of September 30, 2014, the registered capital of Shenzhen 7Road was \$1.5 million and Gamease held 100% of the equity interests in this entity.

#### Doyo

Doyo was acquired by Guanyou Gamespace in November 2013. As of September 30, 2014, the registered capital of Doyo was \$1.6 million and Guanyou Gamespace held 100% of the equity interests in this entity.

#### Changyou e-pay

Beijing Changyou e-pay Co., Ltd. (“Changyou e-pay”) was incorporated in 2013. As of September 30, 2014, the registered capital of Changyou e-pay was \$16.4 million and Gamease held 100% of the equity interests in this entity.

#### Aishouxin

Beijing Changyou Aishouxin ecological technology Co., Ltd. (“Aishouxin”) was incorporated in May 2014. As of September 30, 2014, the registered capital of Aishouxin was \$2.4 million and Gamease held 100% of the equity interests in this entity.

#### Changyou Heguang

Fujian Changyou Heguang Electronic Technology Co., Ltd. (“Changyou Heguang”) was incorporated in September 2014. As of September 30, 2014, the registered capital of Changyou Heguang was \$3.3 million and Gamease held 100% of the equity interests in this entity.

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### Beijing Baina Information

Beijing Baina Information Technology Co., Ltd. (“Beijing Baina Information”) was acquired by Gamease in July 2014. As of September 30, 2014, the registered capital of Beijing Baina Information was \$1.5 million and Gamease and a third-party individual held 60% and 40% interests, respectively, in this entity.

### Wuhan Baina Information

Baina (Wuhan) Information Technology Co., Ltd. (“Wuhan Baina Information”) was acquired by Gamease in July 2014. As of September 30, 2014, the registered capital of Wuhan Baina Information was \$3.0 million and Gamease and a third-party individual held 60% and 40% interests, respectively, in this entity.

### Wuhan Xingyu

Wuhan Xingyu Technology Co., Ltd. (“Wuhan Xingyu”) was acquired by Gamease in July 2014. As of September 30, 2014, the registered capital of Wuhan Xingyu was \$16,307 and Wuhan Baina Information held 100% of the equity interests in this entity.

### Anzhuoxing

Beijing Anzhuoxing Technology Co., Ltd. (“Anzhuoxing”) was acquired by Gamease in July 2014. As of September 30, 2014, the registered capital of Anzhuoxing was \$13,204 and Wuhan Baina Information held 100% of the equity interests in this entity.

### Hualian Chuangke

Wuhan Hualian Chuangke Technology Co., Ltd. (“Hualian Chuangke”) was acquired by Gamease in July 2014. As of September 30, 2014, the registered capital of Hualian Chuangke was \$0.1 million and Wuhan Baina Information held 100% of the equity interests in this entity.

## For the Others Business

### GoodFeel

Beijing GoodFeel Technology Co., Ltd. (“GoodFeel”) was acquired in 2004. As of September 30, 2014, 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, 2014, the registered capital of 21 East Beijing was \$1.6 million and High Century held 100% of the equity interests 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, 2014, 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, 2014	December 31, 2013
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 28,637	\$ 112,316
Short-term investments	20,154	2,460
Accounts receivable, net	96,846	95,595
Prepaid and other current assets	38,296	41,838
Intercompany receivables due from the Company's subsidiaries	130,657	223,877
Total current assets	<u>314,590</u>	<u>476,086</u>
Fixed assets, net	9,976	8,190
Goodwill	139,874	139,478
Intangible assets, net	34,778	35,135
Other non-current assets	77,626	61,550
Total assets	<u>\$ 576,844</u>	<u>\$ 720,439</u>
<b>LIABILITIES:</b>		
Accounts payable	\$ 3,102	\$ 16,167
Accrued and other short-term liabilities	126,469	343,834
Receipts in advance and deferred revenue	41,743	60,140
Intercompany payables due to the Company's subsidiaries	229,415	12,059
Total current liabilities	<u>400,729</u>	<u>432,200</u>
Long-term liabilities	5,865	9,560
Total liabilities	<u>\$ 406,594</u>	<u>\$ 441,760</u>

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net revenue	\$ 262,280	\$ 259,362	\$ 767,529	\$ 759,948
Net income /(loss)	\$ (16,862)	\$ 5,425	\$ (105,385)	\$ 25,297

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

#### Cash flows of Sohu's VIEs

	Nine months ended September 30,	
	2014	2013
Net cash provided by operating activities	\$ 15,751	\$ 6,312
Net cash used in investing activities	(2,795)	(574)
Net cash used in financing activities	<u>\$ 0</u>	<u>\$ 0</u>

#### Cash flows of Changyou's VIEs

	Nine months ended September 30,	
	2014	2013
Net cash provided by operating activities	\$ 16,970	\$ 29,225
Net cash used in investing activities	(112,013)	(51,434)
Net cash used in financing activities	<u>\$ (793)</u>	<u>\$ 0</u>

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### *Summary of Significant Agreements Currently in Effect*

#### *Agreements Between Consolidated VIEs and Nominee Shareholders*

*Loan and share pledge agreements* between Sohu Era and the shareholders of High Century and Heng Da Yi Tong: These loan agreements provide for loans to the shareholders of High Century and Heng Da Yi Tong for them to make contributions to the registered capital of High Century and Heng Da Yi Tong in exchange for the equity interests in High Century and Heng Da Yi Tong, 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 Heng Da Yi Tong in connection with all actions to be taken by High Century and Heng Da Yi Tong. Pursuant to the loan agreements, the shareholders executed in blank transfers of their equity interests in High Century and Heng Da Yi Tong, which transfers are held by the Sohu Group's legal department and may be completed and effected at Sohu Era's election.

*Loan and share pledge agreements* between Sogou Technology and the shareholders of Sogou Information. The loan agreement provides for a loan to Xiaochuan Wang, the individual shareholder of Sogou Information, to be used by him to make contributions to the registered capital of Sogou Information in exchange for his equity interest in Sogou Information. The loan is interest free-and is repayable on demand, but the shareholder may repay the loan only by transferring to Sogou Technology his equity interest in Sogou Information. Under the pledge agreement, all of the shareholders of Sogou Information pledge their equity interests to Sogou Technology to secure the performance of their obligations under the various VIE-related agreements. If any shareholder of Sogou Information breaches any of his or its obligations under any VIE-related agreements, Sogou Technology is entitled to exercise its right as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

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

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

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

*Loan and share pledge agreements* between Sohu Era and the respective shareholders of GoodFeel: These loan agreements provide for loans to the shareholders of GoodFeel for them to make contributions to the registered capital of GoodFeel in exchange for the equity interests in GoodFeel, 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 GoodFeel in connection with all actions to be taken by GoodFeel. Pursuant to the loan agreements, the shareholders executed in blank transfers of their equity interests in GoodFeel, which transfers are held by the Sohu Group's legal department and may be completed and effected at Sohu Era's election.

*Loan and share pledge agreements* between Sohu Era and the shareholders of Yi He Jia Xun. The loan agreement provides for loans to the individual shareholders of Yi He Jia Xun, to be used by them to make contributions to the registered capital of Yi He Jia Xun in exchange for the equity interest in Yi He Jia Xun. The loans are interest free-and are repayable on demand, but the shareholders may repay the loans only by transferring to Sohu Era their equity interest in Yi He Jia Xun. Under the pledge agreements, all of the shareholders of Yi He Jia Xun pledge their equity interests to Sohu Era to secure the performance of their obligations under the various VIE-related agreements. If any shareholder of Yi He Jia Xun breaches any of his or its obligations under any VIE-related agreements, Sohu Era is entitled to exercise its right as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

*Exclusive equity interest purchase right agreements* between Sohu Era, Yi He Jia Xun and the shareholders of Yi He Jia Xun. Pursuant to these agreements, Sohu Era 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 Yi He Jia Xun all or any part of their equity interests at a purchase price equal to the shareholders' initial contributions to registered capital.

*Business operation agreement* among Sohu Era, Yi He Jia Xun and the shareholders of Yi He Jia Xun. The agreement sets forth the right of Sohu Era to control the actions of the shareholders of Yi He Jia Xun. The agreement has a term of 10 years, renewable at the request of Sohu Era.

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*Powers of Attorney* executed by the shareholders of Yi He Jia Xun in favor of Sohu Era with a term of 10 years, extendable at the request of Sohu Era. These powers of attorney give Sohu Era the right to appoint nominees to act on behalf of each of the two Yi He Jia Xun shareholders in connection with all actions to be taken by Yi He Jia Xun.

*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 during the terms of the agreements, if and 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 the registered capital of Gamease and Guanyou Gamespace or the proportional amount of such initial contribution in the case of a partial purchase of such equity interests.

*Business operation agreements* among AmazGame, Gamease and the shareholders of Gamease and among Gamespace, Guanyou Gamespace and the shareholders of Guanyou Gamespace. These agreements set forth the rights 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.

*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.

*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 during the terms of the agreements, if and 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 described above and Shanghai ICE's obligations to ICE Information under their business agreements described below.

*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.

*Amended and restated 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 agreement, 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 by 7Road Technology by notice to the other parties at any time when, under PRC law as then in effect, 7Road Technology cannot exercise its purchase right, and is also terminable 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. Neither Gamease nor Shenzhen 7Road has any power to terminate the agreement.

*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.



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*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

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

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

*Exclusive technology consulting and service agreement* between Yi He Jia Xun and Sohu Era. Pursuant to this agreement Sohu Era has the exclusive right to provide technical consultation and other related services to Yi He Jia Xun in exchange for a fee. The agreement has a term of ten years, and is renewable at the request of Sohu Era.

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

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

*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.

*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.

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*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 Group's 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.

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

### ***VIEs Not Consolidated within the Sohu Group***

As of September 30, 2014, Sohu had three VIEs which were not consolidated within the Sohu Group. Since the Sohu Group neither has the power to direct these VIEs' activities that will significantly impact their economic performance nor has the obligation to absorb losses of, or the right to receive benefits from, these VIEs that could potentially be significant to these VIEs, the Group is not the primary beneficiary and, accordingly, the Group recognizes the investments under the equity method or the cost method according to the share percentage the Group holds. In assessing the maximum exposure to a loss on the investments compared to the cost of its investment, the Sohu Group determined that it did not have further obligations exceeding the cost of the investments and that there were no terms of the investment arrangements that could require the Sohu Group to provide further financial support to the VIEs.

## **11. Sohu.com Inc. Shareholders' Equity**

### ***Takeover Defense***

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

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### **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.

For the three and nine months ended September 30, 2014 and 2013, the Company did not repurchase any shares of its common stock.

### **Stock Incentive Plan**

Sohu, Changyou, Sogou, and Sohu Video have incentive plans, and prior to June 28, 2013 7Road had an incentive plan, for the granting of share-based awards, including common stock or 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 by Sohu's shareholders on July 2, 2010.

For the three and nine months ended September 30, 2014, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was nil and \$1.4 million, respectively. 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.

#### 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, 2014 is presented below:

<u>Options</u>	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (1) (in thousands)</u>
Outstanding at January 1, 2014	147	\$ 18.87	1.39	\$ 7,958
Exercised	(28)	18.31		
Forfeited or expired	(2)	16.81		
Outstanding at September 30, 2014	117	19.04	0.68	3,643
Vested at September 30, 2014	117	19.04	0.68	3,643
Exercisable at September 30, 2014	117	19.04	0.68	3,643

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sohu's closing stock price of \$50.23 on September 30, 2014 and the exercise price of share options. The total intrinsic value of share options exercised for the nine months ended September 30, 2014 was \$1.6 million.

No options have been granted under Sohu's 2000 Stock Incentive Plan since 2006. For the three and nine months ended September 30, 2014 and 2013, 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, 2014, total cash received from the exercise of share options amounted to \$0.1 million and \$0.5 million, respectively. 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.

#### ii) Summary of restricted share unit activity

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A summary of restricted share unit activity under the Sohu 2000 Stock Incentive Plan as of and for the nine months ended September 30, 2014 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, 2014	123	\$ 61.27
Granted	0	
Vested	(121)	61.27
Forfeited	(2)	61.27
Unvested at September 30, 2014	<u>0</u>	
Expected to vest thereafter	<u>0</u>	

For the three and nine months ended September 30, 2014, total share-based compensation expense recognized for restricted share units was nil and \$1.4 million, respectively. 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.

There was no unrecognized compensation expense for restricted share units as of September 30, 2014, because all remaining unvested restricted shares units vested in the first quarter of 2014. The total fair value on their respective vesting dates of restricted share units that vested during the three and nine months ended September 30, 2014 was nil and \$9.3 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, 2013 was nil and \$6.2 million, respectively.

### Sohu's 2010 Stock Incentive Plan

On July 2, 2010, Sohu's shareholders adopted the Sohu 2010 Stock Incentive Plan, which provides for the issuance of up to 1,500,000 shares of common stock, including shares issued pursuant to the vesting and settlement of restricted share units and pursuant to the exercise of share options. The maximum term of any stock right granted under the Sohu 2010 Stock Incentive Plan is ten years from the grant date. The Sohu 2010 Stock Incentive Plan will expire on July 1, 2020. As of September 30, 2014, 1,306,513 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, 2014 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, 2014	123	\$ 84.82
Granted	36	67.57
Vested	(4)	72.92
Forfeited	(9)	81.33
Unvested at September 30, 2014	<u>146</u>	<u>81.08</u>
Expected to vest thereafter	<u>108</u>	<u>52.25</u>

For the three and nine months ended September 30, 2014, total share-based compensation expense recognized for restricted share units was \$1.3 million and \$3.8 million, respectively. 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.

As of September 30, 2014, there was \$4.9 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 1.16 years. The total fair value on their respective vesting dates of restricted share units that vested was \$0.2 million during both the three months and the nine months ended September 30, 2014. 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.

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

Through September 30, 2014, Changyou had granted under the Changyou 2008 Share Incentive Plan 15,000,000 ordinary shares to its chief executive officer Tao Wang, through Prominence Investments Ltd., which is an entity that may be deemed under applicable rules of the Securities and Exchange Commission to be beneficially owned by Tao Wang. As of September 30, 2014, Changyou had also granted under the Changyou 2008 Share Incentive Plan restricted share units, settleable upon vesting by the issuance of an aggregate of 4,983,552 ordinary shares, to its executive officers other than Tao Wang, and certain other Changyou employees.

For the three and nine months ended September 30, 2014, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$0.5 million and \$1.2 million, respectively. 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.

#### Share-based Awards Granted before Changyou's IPO

All of the restricted ordinary shares and restricted share units granted before Changyou's IPO became vested in 2012 and 2013, respectively. Hence there has been no share-based compensation expense recognized with respect to such restricted ordinary shares and restricted share units since their respective full vesting dates.

#### Share-based Awards Granted after Changyou's IPO

Through September 30, 2014, in addition to the share-based awards granted before Changyou's IPO, Changyou had granted restricted share units, settleable upon vesting with the issuance of an aggregate of 1,787,552 ordinary shares, to certain of its executive officers other than Tao Wang and to certain of its other 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 American depositary shares on the grant date.

A summary of activity for these restricted share units as of and for the nine months ended September 30, 2014 is presented below:

<b>Restricted Share Units</b>	<b>Number of Units (in thousands)</b>	<b>Weighted-Average Grant-Date Fair Value</b>
Unvested at January 1, 2014	218	\$ 14.46
Granted	160	13.80
Vested	(29)	16.32
Forfeited	(5)	17.19
Unvested at September 30, 2014	344	13.96
Expected to vest thereafter	331	13.97

For the three and nine months ended September 30, 2014, total share-based compensation expense recognized for the above restricted share units was \$0.5 million and \$1.2 million, respectively. 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.

As of September 30, 2014, there was \$2.2 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 1.15 years. The total fair value of these restricted share units vested during the three and nine months ended September 30, 2014 was nil and \$0.44 million, respectively. 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.

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### Changyou 2014 Share Incentive Plan

On June 25, 2014, Changyou reserved 2,000,000 of its Class A ordinary shares under the Changyou.com Limited 2014 Share Incentive Plan (the “Changyou 2014 Share Incentive Plan”) for the purpose of making share incentive awards to its executive officers and employees. As of September 30, 2014, Changyou had not made any awards under the Changyou 2014 Share Incentive Plan.

### *3) Sogou Inc. Share-based Awards*

#### Sogou 2010 Share Incentive Plan

Sogou adopted a share incentive plan on October 20, 2010. The number of Sogou ordinary shares issuable under the plan was 41,500,000 after an amendment that was effective August 22, 2014 (as amended, the “Sogou 2010 Share Incentive Plan”). Awards of share rights may be granted under the Sogou 2010 Share Incentive Plan to management and employees of Sogou and of any present or future parents or subsidiaries or variable interest entities of Sogou. The maximum term of any share right granted under the Sogou 2010 Share Incentive Plan is ten years from the grant date. The Sogou 2010 Share Incentive Plan will expire on October 19, 2020. As of September 30, 2014, Sogou had granted options for the purchase of 37,829,113 ordinary shares under the 2010 Sogou Share Incentive Plan.

Of the granted options for the purchase of 37,829,113 shares, options for the purchase of 25,319,113 shares 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. Accordingly, for purposes of recognition of share-based compensation expense, each installment is considered to be granted as of that date. As of September 30, 2014, performance targets had been set for options for the purchase of 21,885,713 shares, subject to vesting upon service period requirements for management and key employees being met and Sogou’s achievement of performance targets and, accordingly, such options were considered granted for purposes of recognition of share-based compensation expense. As of September 30, 2014, options for the purchase of 15,733,513 shares had become vested and exercisable because both the service period and the performance requirements had been met, and of such vested options, options for the purchase of 15,276,505 shares had been exercised.

Of the granted share options, options for the purchase of 8,550,000 shares will become vested and exercisable in four or five equal installments, with (i) the first installment vesting upon Sogou’s completion of an IPO of its ordinary shares (“Sogou’s IPO”) and the expiration of all underwriters’ lockup periods applicable to Sogou’s 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 granted share options, for the purchase of 3,960,000 Sogou ordinary shares, 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 after June 15, 2013, all installments of these remaining options for the purchase of 3,960,000 Sogou ordinary shares will cease to vest.

All installments of options for the purchase of 8,550,000 shares that are subject to vesting upon completion of Sogou’s IPO and options for the purchase of 3,960,000 shares that are subject to vesting upon the completion of an Event were considered granted upon the issuance of the options. The completion of an Event is considered to be a performance condition of the awards. An IPO or other 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 Event, and hence no share-based compensation expense was recognized for the three and nine months ended September 30, 2014 for the options for the purchase of 8,550,000 shares that are subject to vesting upon completion of Sogou’s IPO or for the options for the purchase of 3,960,000 shares that are subject to vesting upon the completion of an Event.

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A summary of share option activity under the Sogou 2010 Stock Incentive Plan as of and for the nine months ended September 30, 2014 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, 2014	17,953	\$ 0.251	
Granted	6,578	0.001	
Exercised	(5,242)	0.001	
Forfeited or expired	(170)	0.001	
Outstanding at September 30, 2014	19,119	0.236	7.99
Vested at September 30, 2014 and expected to vest thereafter	6,120		
Exercisable at September 30, 2014	457		

For the three and nine months ended September 30, 2014, total share-based compensation expense recognized for share options under the Sogou 2010 Share Incentive Plan was \$9.8 million and \$10.7 million, respectively. For the three and nine months ended September 30, 2013, total share-based compensation expense recognized for share options under the Sogou 2010 Share Incentive Plan was \$1.7 million and \$1.8 million, respectively.

As of September 30, 2014, there was \$23.9 million of unrecognized compensation expense related to the unvested share options. The expense is expected to be recognized over a weighted average period of 0.26 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>2014</u>
Average risk-free interest rate	2.62%-3.05%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	0%~12%
Weighted average expected option life	7.37
Volatility rate	52%-54%
Dividend yield	0%
Fair value	5.85

Sogou estimated the risk-free rate based on the market yields of U.S. Treasury securities with an estimated country-risk differential as of the valuation date. An exercise multiple was estimated as the ratio of the fair value of the 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 0% or 1% for Sogou management's share options granted as of September 30, 2014 and 12% for Sogou employees' share options granted as of September 30, 2014. 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 Sohu Management Sogou Share Option Arrangement, which was approved by the boards of directors of Sohu and Sogou in March 2011, Sohu has the right to provide to 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, 2014, Sohu had granted options for the purchase of 10,763,000 Sogou ordinary shares to Sohu management and key employees under the Sohu Management Sogou Share Option Arrangement.

Of the granted options for the purchase of 10,763,000 shares, options for the purchase of 8,363,000 shares 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. Accordingly, for purposes of recognition of share-based compensation expense, each installment is considered to be granted as of that date. As of September 30, 2014, performance targets had been set for options for the purchase of 8,208,000 shares vesting upon service period requirements for management and key employees being met and Sogou's achievement of performance targets and, accordingly, such share options were considered granted. As of September 30, 2014, options for the purchase of 6,585,750 shares had become vested and exercisable because both the service period and the performance requirements had been met, and vested options for the purchase of 6,378,500 shares had been exercised.

The remaining options for the purchase of 2,400,000 shares 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 options for the purchase of 2,400,000 shares that are subject to vesting upon the completion of Sogou's IPO were considered granted upon the issuance of the options. The completion of a firm commitment IPO is considered to be a performance condition of the awards. An IPO event is not considered to be probable until it is completed. Under ASC 718, compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these 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, 2014 for these options for the purchase of 2,400,000 shares.

A summary of share option activity as of and for the nine months ended September 30, 2014 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, 2014	3,880	\$ 0.625	
Granted	1,623	0.625	
Exercised	(1,273)	0.625	
Forfeited or expired	0		
Outstanding at September 30, 2014	4,230	0.625	7.68
Vested at September 30, 2014 and expected to vest thereafter	1,696		
Exercisable at September 30, 2014	207		

For the three months and the nine months ended September 30, 2014, total share-based compensation expense recognized for share options under the Sohu Management Sogou Share Option Arrangement was \$2.3 million and \$3.6 million, respectively. For both 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.

As of September 30, 2014, there was \$5.5 million of unrecognized compensation expense related to unvested Sogou share options. The expense is expected to be recognized over a weighted average period of 0.25 years.



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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:

<u>Granted to Employees</u>	<u>2014</u>
Average risk-free interest rate	2.62%-2.93%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	0%-8%
Weighted average expected option life	6.79
Volatility rate	52%-54%
Dividend yield	0%
Fair value	5.23

### Option Modification

In the first and second quarter of 2013, a portion of the share options granted under the Sogou 2010 Share Incentive Plan and the Sohu Management Sogou Share Option Arrangement were exercised early, and the resulting Sogou ordinary shares were transferred to trusts with the original option grantees as beneficiaries. The trusts will distribute the shares to those beneficiaries in installments based on the vesting requirements under the original option agreements. Although these trust arrangements caused a modification of the terms of these share options, the modification was not considered substantive. Accordingly, 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, 2014, options for the purchase of 15,320,000 shares granted under the Sogou 2010 Share Incentive Plan and options for the purchase of 612,500 shares granted under the Sohu Management Sogou Share Option Arrangement, or options for the purchase of a total of 15,932,500 shares, had been exercised early but had not been distributed to the beneficiaries of the trusts. All of the early-exercised shares that were distributed to those beneficiaries by the trusts in accordance with the vesting requirements under the original option agreements have been included in the disclosures under the headings "Sogou 2010 Share Incentive Plan" and "Share-based Awards to Sohu Management" above.

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

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

As of September 30, 2014, unvested Tencent restricted share unit awards held by these employees provided for the issuance of up to 428,300 ordinary shares of Tencent, taking into consideration a five-for-one split of Tencent's shares that became effective in May 2014. Share-based compensation expense of \$1.0 million and \$4.6 million, respectively, related to these Tencent restricted share units was recognized in the Group's consolidated statements of comprehensive income for the three and nine months ended September 30, 2014. As of September 30, 2014, there was \$3.4 million of unrecognized compensation expense related to these unvested restricted share units. This amount is expected to be recognized over a weighted average period of 2.84 years.

### Sogou Share Repurchase Transaction

In June 2014, Sogou repurchased approximately 4.2 million of its Class A Ordinary Shares from noncontrolling shareholders, some of whom were employees of the Group, for an aggregate repurchase price of \$41.6 million, which exceeded the fair value of the ordinary shares. Under ASC 718, the excess of the repurchase price over the fair value of the equity instruments repurchased from employees should be recognized as additional compensation expense. Therefore, in the second quarter of 2014, approximately \$17.0 million of share-based compensation expense was recognized in the Sohu Group's statements of comprehensive income as share-based compensation expense in connection with the repurchases.

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### 4) Sohu Video Share-based Awards

On January 4, 2012, Sohu Video adopted the Video 2011 Share Incentive Plan, under which 25,000,000 ordinary shares of Sohu Video are reserved for the purpose of making share incentive awards to management and key employees of the video division and to Sohu management. The maximum term of any share incentive award granted under the Video 2011 Share Incentive Plan is ten years from the grant date. The Video 2011 Share Incentive Plan will expire on January 3, 2021. As of September 30, 2014, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been made under the Video 2011 Share Incentive Plan, and options for the purchase of 4,972,800 ordinary shares were vested.

For the three months and the nine months ended September 30, 2014, total share-based compensation expense recognized for vested options under the Video 2011 Share Incentive Plan was negative \$0.1 million and positive \$ 4.1 million, respectively.

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

<u>Assumptions Adopted</u>	<u>2014</u>
Average risk-free interest rate	2.81%
Exercise multiple	2.8
Expected forfeiture rate (post-vesting)	10%
Weighted average expected option life	7.3
Volatility rate	61%
Dividend yield	0%
Fair value	0.82

### 5) 7Road Share-based Awards

See Note 3—Share-Based Compensation Expense.

## 12. Business Transactions

### *Sogou Transactions*

#### *Sogou-Tencent 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 Investments Limited (“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 the aggregate amount of \$301 million, of which Sohu Search received \$161 million, Photon received \$43 million, and China Web received \$97 million. On December 2, 2013, Tencent invested \$1.5 million in cash in Sogou's VIE Sogou Information, as additional consideration for the Sogou-Tencent Transactions, in return for a 45% equity interest in Sogou Information. Through a share pledge agreement and an exclusive equity interest purchase right agreement between Tencent and Sogou Technology, and similar agreements between the other two shareholders of Sogou Information, Sogou Technology controls all shareholder voting rights in Sogou Information, has the power to direct the activities of Sogou Information, and is the primary beneficiary of Sogou Information, and Tencent and the other two shareholders of Sogou Information act as Sohu Technology's nominees.

On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of \$47.3 million.

In June 2014, Sogou repurchased approximately 4.2 million of its Class A Ordinary Shares from noncontrolling shareholders, some of whom are employees of the Group, for an aggregate purchase price of \$41.6 million.

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### *Sohu's Shareholding in Sogou*

As of September 30, 2014, Sogou had outstanding a combined total of 357,445,588 ordinary shares and preferred shares held as follows:

- (i) Sohu:  
132,834,750 Class A Ordinary Shares and 24,000,000 Series A Preferred Shares. Of the Class A Ordinary Shares, 5,634,750 shares are subject to purchase from Sohu 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) Tencent:  
6,757,875 Class A Ordinary Shares, 65,431,579 Series B Preferred Shares and 79,368,421 non-voting Class B Ordinary Shares; and
- (iv) Various employees of Sogou and Sohu: 10,652,963 Class A Ordinary Shares.

Since Sohu controls the election of the Board of Directors of Sogou, Sohu is Sogou's controlling shareholder. Therefore, 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.

Because no ordinary shares will be issued with respect to share options granted by Sogou until they are vested and exercised, share options granted by Sogou that have not vested and vested share options that have not yet been exercised are not included as outstanding shares of Sogou and have no impact on the Sohu Group's basic net income per share. Unvested share options with performance targets achieved and vested share options that have not yet been exercised do, however, have a dilutive impact on the Sohu Group's dilutive net income per share. See Note 16—Net Income/(Loss) per Share.

### *Terms of Sogou Preferred Shares*

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

### Dividend Rights

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

### Liquidation Rights

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

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### Redemption Rights

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

### Conversion Rights

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

### Voting Rights

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

### Other Rights

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

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

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

### ***Changyou Share Repurchase Transactions***

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. During the nine months ended September 30, 2014, Changyou did not repurchase any of its ADSs under the share repurchase program.

## **13. Business Combination**

On July 16, 2014, Changyou, through a wholly-owned subsidiary, entered into an investment agreement with MoboTap Inc. ("MoboTap"), a Cayman Islands company which is the mobile technology developer behind the Dolphin Browser, MoboTap's subsidiaries and variable interest entities, and MoboTap's shareholders pursuant to which Changyou agreed to purchase from existing shareholders of MoboTap shares of MoboTap representing 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash. In addition, Changyou has the right to purchase up to 10% of the equity interests in MoboTap from the noncontrolling shareholders, at a price of 20% below the IPO price, before a qualified IPO of MoboTap. If MoboTap achieves specified performance milestones for 2016 and certain other conditions specified in the shareholder agreement, including the completion of an IPO, are not met, the noncontrolling shareholders of MoboTap will have a one-time right to put to Changyou shares of MoboTap held by them, representing up to 15% of the equity interests in MoboTap, for an aggregate price of up to \$53 million. The Sohu Group began to consolidate MoboTap's financial statements commencing with the acquisition.

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

	<u>As of July 31, 2014</u>
Cash consideration	\$ 90,830
Repurchase option	793
Identifiable intangible assets acquired	27,000
Goodwill	113,040
Other assets	6,714
Put option	(298)
Liabilities assumed	(2,995)
Noncontrolling interest	(53,424)
Total	<u>\$ 90,830</u>

The acquired identifiable intangible assets represent the Dolphin Browser user base, technology and trademark, the useful lives of which were 2.4 years, 5.4 years and 10.4 years, respectively. The acquired user base was valued with the cost approach, and the acquired technology and trademark were valued with the income approach. Goodwill of \$113 million primarily represents the expected synergies from combining the operations of Changyou and MoboTap, which are complementary to each other. In accordance with ASC 350, goodwill is not amortized but is tested for impairment and is not deductible for tax purposes. As of September 30, 2014, no measurement period adjustment had been recorded.

Based on an assessment of MoboTap's financial performance, MoboTap 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 MoboTap is not necessary. As the Dolphin Browser serves as an important entrance point for Changyou to accumulate traffic from users of mobile devices, which is complementary to Changyou's game business, MoboTap will be reported under the online game segment.

### **14. Mezzanine Equity**

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

Under ASC 480-10, the Sohu Group calculated, 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 was 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, and 7Road has been a wholly-owned subsidiary of Changyou since then. As the put option held by the owners of the noncontrolling interest lapsed upon the closing of Changyou's acquisition of their shares in 7Road, there was no associated accretion and no mezzanine equity during and after the third quarter of 2013.

For the three and nine months ended September 30, 2013, accretion charges of nil and \$17.8 million, respectively, were recorded in the Sohu Group's statements of comprehensive income as net income attributable to the mezzanine-classified noncontrolling interest shareholders of 7Road. There was no associated accretion in 2014, as no mezzanine equity existed after Changyou's acquisition on June 5, 2013 of all of the ordinary shares of 7Road held by the noncontrolling shareholders.

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

### ***Noncontrolling Interest for Sogou***

Since Sohu controls the election of the Board of Directors of Sogou, Sohu is Sogou's controlling shareholder. Therefore, 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' investments in Sogou Preferred Shares and Ordinary Shares are accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as redemption of the noncontrolling interest is solely within the control of Sohu. These treatments are based on the terms governing investment, and on the terms of the classes of Sogou shares held, by the noncontrolling shareholders in Sogou.

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

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

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

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

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

As of September 30, 2014 and December 31, 2013, noncontrolling interest in the consolidated balance sheets was \$472.4 million and \$510.0 million, respectively.

	<b>As of</b>	
	<b>September 30, 2014</b>	<b>December 31, 2013</b>
	<b>(in thousands)</b>	<b>(in thousands)</b>
Changyou	\$ 351,703	\$ 307,898
Sogou	120,743	199,059
Others	0	3,058
Total	<u>\$ 472,446</u>	<u>\$ 510,015</u>

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### *Noncontrolling Interest of Changyou*

As of September 30, 2014 and December 31, 2013, the noncontrolling interest of Changyou was recognized in the Sohu Group's consolidated balance sheets, representing as of both dates 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, 2014 and December 31, 2013, the noncontrolling interest of Sogou 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 Preferred Shares and Ordinary Shares of Sogou, 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 repurchase of Sogou Series A Preferred Shares from China Web on March 24, 2014, and Sogou's repurchase of Class A Ordinary Shares from noncontrolling shareholders in June 2014.

### *Noncontrolling Interest in the Consolidated Statements of Comprehensive Income*

For the three and nine months ended September 30, 2014, net loss attributable to the noncontrolling interest in the consolidated statements of comprehensive income was \$4.8 million and \$19.1 million, respectively, compared with net income attributable to noncontrolling interest of \$22.9 million and \$70.4 million, respectively, for the three months and nine months ended September 30, 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Changyou	\$ (783)	\$23,596	\$ (7,191)	\$73,486
Sogou	(3,977)	(1,143)	(12,712)	(3,109)
Others	0	402	765	49
Total	<u>\$(4,760)</u>	<u>\$22,855</u>	<u>\$(19,138)</u>	<u>\$70,426</u>

### *Noncontrolling Interest of Changyou*

For the three months ended September 30, 2014 and 2013, net loss and net income, respectively, attributable to the noncontrolling interest of Changyou, representing the 32% economic interest in Changyou attributable to shareholders other than Sohu for both periods, was recognized in the Sohu Group's consolidated statements of comprehensive income.

### *Noncontrolling Interest of Sogou*

For the three months ended September 30, 2014 and 2013, 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.

## **16. Net Income /(Loss) per Share**

Basic net income /(loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income /(loss) per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income /(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income /(loss) per share. For the three and nine months ended September 30, 2014, 99,000 and 114,000, respectively, common shares potentially issuable upon the exercise or settlement of share-based awards using the treasury stock method were anti-dilutive and excluded from the denominator for calculation of diluted net loss per share.

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

- (1) Changyou's net income /(loss) 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, and not by using the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of the Sohu Group's diluted net income /(loss) per share, assuming a dilutive effect, 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. As a result, Changyou's net income /(loss) attributable to the Sohu Group on a diluted basis decreased accordingly. The effect of this calculation is presented as "incremental dilution from Changyou" in the table below. Assuming an anti-dilutive effect, all of these Changyou restricted share units are excluded from the calculation of the Sohu Group's diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group's basic net income /(loss) per share.

For the three months ended September 30, 2014, all of these Changyou restricted share units had a dilutive effect, and therefore were included in the calculation of the Sohu Group's diluted net loss per share. This impact is presented as "incremental dilution from Changyou" in the table below.

For the nine months ended September 30, 2014, all of these Changyou restricted share units had an anti-dilutive effect, and therefore were excluded in the calculation of the Sohu Group's diluted net loss per share, and "incremental dilution from Changyou" in the table below was zero.

- (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 Preferred Shares and Ordinary Shares, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and is not determined by allocating Sogou's net income /(loss) to the Sohu Group using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders discussed in Note 15—Noncontrolling Interest.

In the calculation of the Sohu Group's diluted net income /(loss) per share, assuming a dilutive effect, the percentage of the Sohu Group's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested 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 effect of this calculation is presented as "incremental dilution from Sogou" in the table below. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of the Sohu Group's diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group's basic net income /(loss) per share.

For the three and nine months ended September 30, 2014, all of these Sogou shares and share options had a dilutive effect, and therefore were included in the calculation of the Sohu Group's diluted net loss per share. This impact is presented as "incremental dilution from Sogou" in the table below.

As discussed in Note 1—The Company and Basis of Presentation, on March 24, 2014 Sogou purchased from China Web 14.4 million Series A Preferred Shares of Sogou for an aggregate purchase price of \$47.3 million. The transaction gave rise to a deemed dividend amounting to \$27.7 million, which was deemed to have been contributed by Sohu, as a holder of ordinary shares of Sogou, for the difference between the price Sogou paid to China Web for the Series A Preferred Shares and the carrying amount of these 14.4 million Series A Preferred Shares in the Group's consolidated financial statements. This deemed dividend has been subtracted from net income attributable to Sohu.com Inc. for the nine months ended September 30, 2014 in the table below when calculating the basic and diluted net loss per share attributable to Sohu.com Inc.



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Numerator:</b>				
Net loss attributable to Sohu.com Inc., basic (after subtracting the deemed dividend to noncontrolling Sogou Series A Preferred shareholders)	\$ (27,138)	\$ (64,189)	\$ (147,082)	\$ (18,132)
<b>Effect of dilutive securities:</b>				
Incremental dilution from Changyou	(5)	(297)	0	(723)
Incremental dilution from Sogou	(1,259)	(535)	(3,429)	(1,673)
Net loss attributable to Sohu.com Inc., diluted	\$ (28,402)	\$ (65,021)	\$ (150,511)	\$ (20,528)
<b>Denominator:</b>				
Weighted average basic common shares outstanding	38,485	38,288	38,457	38,239
<b>Effect of dilutive securities:</b>				
Share options and restricted share units	0	234	0	242
Weighted average diluted common shares outstanding	38,485	38,522	38,457	38,481
Basic net loss per share attributable to Sohu.com Inc.	\$ (0.71)	\$ (1.68)	\$ (3.82)	\$ (0.47)
Diluted net loss per share attributable to Sohu.com Inc.	\$ (0.74)	\$ (1.69)	\$ (3.91)	\$ (0.53)

## 17. Recently Issued Accounting Pronouncements

The FASB issued *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that “represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results.” The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Entities may “early adopt” the guidance for new disposals. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

On May 28, 2014, the FASB and IASB issued their long-awaited converged standard on the recognition of revenue from contracts with customers. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The FASB is amending the FASB *Accounting Standards Codification* and creating a new Topic 606, *Revenue from Contracts with Customers*, to supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the amendments supersede some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. For a public entity, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In June 2014, under ASC 718, *Compensation—Stock Compensation*, the FASB issued *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. These amendments apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. For all entities, the amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The Group is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In August 2014, the FASB issued *Presentation of Financial Statements – Going Concern*. This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The Company does not anticipate that this adoption will have a significant impact on its financial position, results of operations, or cash flows.

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

As used in this report, references to “us,” “we,” “our,” “our company,” “our Group,” the “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 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 Heng Da Yi Tong Information Technology Co., Ltd. (“Heng Da Yi Tong”, formerly known as Beijing Sohu Entertainment Culture Media Co., Ltd. or “Sohu Entertainment”), Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”), Beijing GoodFeel 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”), SohuPay Science and Technology Co., Ltd. (“SohuPay”), Beijing Yi He Jia Xun Information Technology Co., Ltd. (“Yi He Jia Xun”), Tianjin Jinhu Culture Development Co., Ltd. (“Tianjin Jinhu”), Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (“Shi Ji Guang Su”), Beijing Intelligence World Network Technology Co., Ltd. (“Intelligence World”), SendCloud Technology Co., Ltd., Beijing Focus Interactive Information Service Co., Ltd. (“Focus Interactive”), Beijing Focus Xin Gan Xian Information Technology Co., Ltd. (“Focus Technology”), Beijing Focus Real Estate Agency Co., Ltd. (“Focus Real Estate”) 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, Mobogarden Enterprises Limited, Heroic Vision Holdings Limited (“Heroic”), TalkTalk Limited (“TalkTalk”), RaidCall (HK) Limited (“RaidCall HK”), 7Road.com Limited (“7Road”), 7Road.com HK Limited (“7Road HK”), Changyou.com (TH) Limited (“Changyou Thai”), Changyou.com Rus Limited (“Changyou Rus”), PT.CHANGYOU TECHNOLOGY INDONESIA (“Changyou Indonesia”), Changyou Middle East FZ-LLC (“Changyou AUE”), Changyou.com Technology Brazil Desenvolvimento De Programas LTDA (“Changyou Brazil”), Creative Digital Limited, Glory Loop Limited, MoboTap Inc. (“MoboTap”) (a Cayman Islands company), MoboTap Inc. Limited, MoboTap Inc. (a Delaware corporation), Dolphin Browser Inc., Muse Entertainment Limited, Dstore Technology Limited, 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 Changyou RaidCall Internet Technology Co., Ltd. (“RaidCall”), Beijing Yang Fan Jing He Information Consulting Co., Ltd. (“Yang Fan Jing He”), Shanghai Jingmao Culture Communication Co., Ltd. (“Shanghai Jingmao”), Shanghai Hejin Data Consulting Co., Ltd. (“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”), Beijing Doyo Internet Technology Co., Ltd. (“Doyo Internet”), Beijing Zhi Hui You Information Technology Co., Ltd. (“Zhi Hui You”), Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”), Shenzhen 7Road Network Technologies Co., Ltd. (“7Road Technology”), Shenzhen 7Road Technology Co., Ltd. (“Shenzhen 7Road”), Beijing Changyou e-pay Co. Ltd. (“Changyou e-pay”), Beijing Changyou Aishouxin Ecological Technology Co., Ltd. (“Aishouxin Ecological Technology”), Shenzhen Brilliant Imagination Technologies Co., Ltd., Fujian Changyou Huguang Electronic Technology Co., Ltd., Beijing Baina Information Technology Co., Ltd., Baina Zhiyuan (Beijing) Technology Co., Ltd., Beijing Anzhuoxing Technology Co., Ltd., Baina Zhiyuan (Chengdu) Technology Co., Ltd., Chengdu Xingyu Technology Co., Ltd., Baina (Wuhan) Information Technology Co., Ltd., Wuhan Xingyu Technology Co., Ltd., and Wuhan Hualian Chuangke Technology Co., Ltd., and these references should be interpreted accordingly. Unless otherwise specified, references to “China” or “PRC” refer to the People’s Republic of China and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words “expect,” “anticipate,” “intend,” “believe,” or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth under the heading “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission (“SEC”) on February 28, 2014, 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, game and service group providing comprehensive online products and services on PCs and mobile devices. We operate one of the most comprehensive matrices of Chinese language content and services, and developed and operate in China one of the most popular Chinese search engines, one of the most popular massively multiplayer online games (“MMOGs”) and two popular Web games. Most of our operations are conducted through our indirect wholly-owned and majority-owned China-based subsidiaries and variable interest entities (“VIEs”).

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 and the others business, of which online advertising and online games are our core businesses.

### Factors and Trends Affecting our Business

With the accelerated shift in user activities from desktop computers (“PCs”) to mobile devices and an increase in the number of Internet users, in the third quarter, the usage of various kinds of mobile Internet services continued to accelerate at a fast pace as the mobile penetration rate grew. At Sohu, we focused our efforts on developing a portfolio of leading mobile products, across our business lines, that we believed our users like. Our key products continued to gain traction in terms of traffic. For example, as of September 30, 2014, mobile video views of our video programs and mobile search queries on Sogou had increased by approximately 169% and 88%, respectively, compared to the beginning of 2014. The monetization of growing mobile traffic is also progressing well, as advertiser customers have begun to increase their budgets allocated to this area.

Online video is one of the top Internet services in China, and Sohu Video is a leading video service provider. We noted an accelerating trend away from television toward streaming video, which is important specifically to Sohu’s online video business, as advertising dollars shift from television to online video. In the third quarter, we saw continuous user base expansion and increased advertising revenues generated on our video platforms. In the meantime, as competition intensified, the major players stepped up their content spending to attract viewers. The average licensing fee of premium content grew significantly as compared to the same period of 2013. As a result, despite solid revenue growth, our online video business continued to incur operating losses. We expect that the industry-wide unfavorable cost structure will continue to overshadow the profitability outlook for the entire industry, including us, in the near term. However, we remain optimistic about the long-term prospects of the online video business, which is a strategic key business line for Sohu. As such, we will continue to invest in content in order to maintain our leading position in the industry.

On September 16, 2013, we entered into a strategic cooperation with Tencent Holdings Limited (Tencent Holdings Limited together with its subsidiaries, “Tencent”), in connection with which Tencent invested in our search subsidiary Sogou. We believe that this strategic cooperation has reinforced Sogou as a leader in the large and fast-growing China market for search and Internet services, particularly for the mobile platform. In the online search sector, Sogou is one of the top three PC search players in China, and we have demonstrated strengthened competitiveness in mobile search. In the third quarter of 2014, with our consistent efforts to improve search quality and user experience, overall search traffic continued to grow quickly. In particular, mobile search traffic increased by approximately 20% compared to the prior quarter. In the third quarter of 2014, aggregate paid clicks and cost-per-click continued to grow, which improved mobile monetization. We expect our search and others business to sustain healthy growth through 2014.

For our online games business conducted by Changyou, Tian Long Ba Bu (“TLBB”), which we developed and currently operate in China, continues to account for a majority of our online game revenues. Our two popular web games, Wartune and DDTank, have entered into a relatively mature phase and their revenues are trending down. Licensed games that we operate, such as Huan Xiang Shen Yu, have become the new growth points of our online games revenues. We expect to launch a number of new MMOGs, Web games and mobile games in the fourth quarter of 2014 to diversify our offering of games and revenues. With more Internet users playing games across multiple devices on PCs and mobile devices, in order to capture new business opportunities arising from this trend and strengthen our capabilities to distribute and promote games across various devices, Changyou is investing heavily in the development and marketing of new software applications. Such investment has led to a decline in Changyou’s profitability. In the third quarter of 2014, total average monthly active users of Changyou’s platform channels were 275 million. Changyou will continue its investment for the rest of the year.

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In November 2014, Mr. Tao Wang resigned as Changyou's Chief Executive Officer for personal reasons. Changyou's Board of Directors appointed Ms. Carol Yu, President and Chief Financial Officer of Sohu.com Inc., and Mr. Dewen Chen, Changyou's President, to be Co-Chief Executive Officers. Ms. Yu will maintain her position as President and Chief Financial Officer of Sohu in addition to her new role with Changyou. Mr. Wang will continue to serve as a member of the Board of Directors of Changyou.

### **Summary of Our Business**

#### ***Online Advertising Business***

##### *Brand Advertising Business*

Our brand advertising business offers to users, over our matrices of Chinese language online media content and services, various products and services across multiple Internet-enabled devices, such as PCs, mobile phones and tablets. It also offers advertisements on Sohu Group Web properties to companies seeking to increase their brand awareness online.

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

- Sohu.com, a leading mass portal and media destination;
- Tv.sohu.com, a leading online video Website;
- Focus.cn, a top real estate Website; and
- 17173.com, a leading game information portal.

For the three and nine months ended September 30, 2014, brand advertising revenues were \$148.8 million and \$393.3 million, respectively, which represented 35% and 33%, respectively, of our total revenues, of which \$16.7 million and \$40.7 million, respectively, was attributable to 17173.com.

##### *Search and Others Business*

Our search and others business, operated 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.

For the three and nine months ended September 30, 2014, our search and others revenues were \$98.4 million and \$247.8 million, respectively, which represented 23% and 21%, respectively, of our total revenues.

#### ***Online Game Business***

Our online game business is conducted by our majority-owned subsidiary Changyou. Changyou is a leading online game developer and operator in China as measured by the popularity of its MMOG TLBB and its Web games DDTank and Wartune, which Changyou developed in-house. Changyou engages in the development, operation and licensing of online games for PCs and mobile devices. Changyou's online games include 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, which are played on mobile devices with an Internet connection.

For the three and nine months ended September 30, 2014, our online game revenues were \$150.3 million and \$467.6 million, respectively, which represented 35% and 39%, respectively, of our total revenues.

#### ***Others Business***

Our others business revenues are primarily generated from our business of offering Internet value-added services ("IVAS") with respect to the operation of Web games and services provided to software application users; offering mobile-related services and mobile products, in cooperation with China mobile network operators, to mobile phone users and to China mobile network operators; and offering slots for advertisements to be shown in cinemas before the screening of movies.

## **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”).

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.

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 which the parties 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 the aggregate amount of \$301 million, of which Sohu Search received \$161 million, Photon received \$43 million, and China Web received \$97 million.

On December 2, 2013, Tencent invested \$1.5 million in cash in Sogou Information, which is a VIE of Sogou, as additional consideration in connection with the Sogou-Tencent Transactions.

On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of \$47.3 million.

In June 2014, Sogou repurchased approximately 4.2 million of its Class A Ordinary Shares from noncontrolling shareholders, some of whom are our employees, for an aggregate purchase price of \$41.6 million.

Pursuant to the Shareholders Agreement, Sohu will hold approximately 52% of the total voting power for the election of the Board of Directors of Sogou, assuming that the remaining repurchase options 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 be available for grants to Sohu management and key employees 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.

### ***Acquisition of MoboTap***

On July 16, 2014, Changyou, through a wholly-owned subsidiary, entered into an investment agreement with MoboTap, which is the mobile technology developer behind the Dolphin Browser, MoboTap’s subsidiaries and variable interest entities, and MoboTap’s shareholders pursuant to which Changyou agreed to purchase from existing shareholders of MoboTap shares of MoboTap representing 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash.

Changyou and MoboTap also entered into a subscription agreement pursuant to which Changyou purchased \$30 million in principal amount of a zero-coupon convertible bond issued by MoboTap that is due in five years. Changyou has the option, exercisable at any time when the bond is outstanding, to convert all or any part of the unpaid principal into shares of MoboTap at a conversion price that would result in Changyou’s interest in MoboTap increasing to 60% on a fully-diluted basis, measured as of the closing date under the investment agreement, if the option is exercised in full.

The noncontrolling shareholders of MoboTap, who are the founders of MoboTap, and MoboTap also entered into a shareholder agreement pursuant to which Changyou has the right to designate three of the five directors of MoboTap, including the chairman of the board; any proposed transfers of equity interests in MoboTap by the noncontrolling shareholders or Changyou are subject to approval of Changyou or the noncontrolling shareholders, as applicable; and Changyou is entitled to customary pre-emptive rights with respect to any new issuance of equity interests in MoboTap. In addition, Changyou has the right to purchase up to 10% of the equity interests in MoboTap from the noncontrolling shareholders, at a price of 20% below the initial public offering (“IPO”) price, before a qualified IPO of MoboTap. If MoboTap achieves specified performance milestones for 2016 and certain other conditions specified in the shareholder agreement, including the completion of an IPO, are not met, the noncontrolling shareholders of MoboTap will have a one-time right to put to Changyou shares of MoboTap held by them, representing up to 15% of the equity interests in MoboTap, for an aggregate price of up to \$53 million. The Sohu Group began to consolidate MoboTap’s financial statements commencing with the acquisition.

## **CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES**

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

### **Basis of Consolidation**

Our consolidated financial statements include the accounts of Sohu.com Inc. and its direct and indirect wholly-owned and majority-owned subsidiaries and consolidated 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 three VIEs that are 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, 2014, 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 /(loss) 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*

Since Sohu controls the election of the Board of Directors of Sogou, Sohu is Sogou's controlling shareholder. Therefore 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' investments in Sogou Preferred Shares and Ordinary Shares are accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as redemption of the noncontrolling interest is solely within the control of Sohu. These treatments are based on the terms governing investment, and on the terms of the classes of Sogou shares held by the noncontrolling shareholders in Sogou.

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

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

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

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

### ***Segment Reporting***

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

### **Revenue Recognition**

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

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

### ***Online Advertising Revenues***

Online advertising revenues include revenues from brand advertising services as well as search and 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 and net of value-added tax ("VAT") and related surcharges.

### ***Brand Advertising Revenues***

#### ***Business Model***

Through PCs and mobile devices, 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, mid-roll, post-roll video screens, and pause video screens, as well as loading page ads and news feed ads on our News App.

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Currently we have three main types of pricing models, consisting of the Fixed Price model, the Cost Per Impression (“CPM”) model, and the E-commerce model.

### Fixed Price model

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

### CPM model

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

### E-commerce model

Our e-commerce revenues are primarily generated from selling membership cards to potential home buyers. The membership card allows a buyer to purchase specified properties from real estate developers at a discount greater than the price that we charge for the card. Membership fees are refundable until the potential home buyer uses the discounts to purchase properties. We recognize such e-commerce revenues upon obtaining confirmation that the membership card has been redeemed to purchase a property.

### 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. In other cases, we only recognize revenue when the cash is received and all other revenue recognition criteria are met.

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

### *Search and 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, as we have the primary responsibility for fulfillment and acceptability. Payments made to Sogou Website Alliance members are included in cost of search and others revenues as traffic acquisition costs. We pay Sogou Website Alliance members based on either revenue-sharing arrangements, under which we pay a percentage of pay-for-click revenues generated from clicks by users of their properties, or on a pre-agreed unit price.



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### **Online Game Revenues**

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

#### *MMOG Operations Revenues*

Revenues are recorded after deducting applicable Business Tax, discounts and rebates to distributors.

Online game revenues from Changyou's operation of MMOGs 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.

#### *Web Game Revenue*

Changyou began generating Web game revenue after its acquisition of a controlling interest in 7Road in May 2011. Revenues from Web games are derived mainly from revenue-sharing payments from joint operators of Changyou's games and license fees from certain of these joint operators. Web games 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. Although the jointly operated Web games may be hosted either on the operators' servers or on servers that Changyou owns or leases from Internet data centers, Changyou does not view itself as the primary obligor with respect to operation of these Web games, as Changyou does not have the primary responsibility for fulfillment and acceptability of the game services. Accordingly, Changyou recognizes these revenues on a net basis according to its share of revenues.

#### *Overseas Licensing Revenue*

Changyou enters into licensing arrangements with third-party operators to operate its MMOGs in other countries and regions. These licensing 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 related to the games. Since Changyou is obligated to provide post-sale services, the initial license fee is recognized as revenue ratably over the license period, and the monthly revenue-based royalty fee is recognized when relevant services are delivered, provided that collectability is reasonably assured.

### **Others Revenues**

Others revenues are primarily generated from our business of offering IVAS with respect to the operation of Web games and services provided to software application users; offering mobile-related services and mobile products, in cooperation with China mobile network operators, to mobile phone users and to China mobile network operators; and offering slots for advertisements to be shown in cinemas before the screening of movies.

#### *Revenues from IVAS*

Our IVAS revenues are currently derived from our operation of Web games and services we provide to users of our software applications. We offer Web games, including licensed and self-developed games on our Websites, collect payment from the end users, and pay a pre-agreed percentage of the proceeds to third-party developers for the licensed games. We provide online music and entertainment services to users of our software applications, such as RaidCall. We also provide download services for APPS and games for mobile devices. Revenues from IVAS are recognized when our obligations under the agreements and all other revenue recognition criteria have been met.

#### *Revenues from Mobile Products*

Most of our mobile revenues are contributed by services provided to mobile phone users through products such as short messaging services ("SMS"), ring-back tones ("RBT"), and interactive voice response ("IVR"). We obtain fees for these services from the China mobile network operators, which charge users on a monthly or per message /download basis for mobile services we provide, and we make payments to third-party mobile service alliance members and content providers based on revenue-sharing arrangements. Such revenues are recognized on either a gross or a net basis, which is determined by evaluating the terms of the arrangement to determine whether we are serving as principal or agent in a transaction.

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### *Revenues from Cinema Advertisements*

We provide advertisement placements in advertising slots to be shown in cinemas before the screening of movies. When all the recognition criteria are met, revenues from cinema advertising are recognized based on a percentage of the advertising slots actually delivered or on a straight-line basis over the contract period.

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

Sohu, Changyou, Sogou, and Sohu Video have incentive plans, and prior to June 28, 2013 7Road had an incentive plan, for the granting of share-based awards, including common stock or ordinary shares, share options, restricted shares and restricted share units, to their executive officers, management and employees.

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

### ***Sohu, Changyou, and Sogou Share-based Awards***

In determining the fair value of share options granted by Sohu as share-based awards, 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.

In determining the fair value of ordinary shares and restricted share units granted by Changyou as share-based awards in 2008, the income approach /discounted cash flow method with a discount for lack of marketability was applied, given that the shares underlying the awards were not publicly traded at the time of grant. In determining the fair value of restricted share units granted in 2009 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.

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

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. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, compensation expense is recognized by Sogou on an accelerated basis over the requisite service period, and the fair value of the share-based compensation is re-measured at each reporting date until a measurement date occurs. For Sogou Class A Ordinary Shares repurchased from our employees in the second quarter of 2014, share-based compensation expense is recognized by the Sohu Group in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value at the repurchase date of the Sogou Class A Ordinary Shares that we repurchased. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and no compensation expense is recorded for the number of awards so estimated.

### ***Sohu Video Share-based Awards***

On January 4, 2012, Sohu Video, the holding entity of Sohu's video division, adopted a 2011 Share Incentive Plan (the "Video 2011 Share Incentive Plan") which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video to management and key employees of the video division and to Sohu management. As of September 30, 2014, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been made, of which options for the purchase of 4,972,800 ordinary shares were vested.

For purposes of ASC 718-10-25, no grant date may be established until a mutual understanding can be reached between Sohu Video and the recipients as to the option awards' key terms and conditions, and such mutual understanding cannot be reached until the fair value of the awards is determinable and can be accounted for. No grant date could be determined as of September 30, 2014, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients.

Under ASC 718-10-55, if the service inception date precedes the grant date for equity-classified awards, compensation expense should be accrued beginning on the service inception date and re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the awards. The estimate of the awards' fair value would be fixed in the period in which the grant date occurs, and cumulative compensation expense should be adjusted based on the fair value at the grant date. Management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date.

### ***7Road Share-based Awards***

On July 10, 2012, 7Road adopted the 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 with noncontrolling shareholders to acquire all of the outstanding ordinary shares of 7Road held by the 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 the 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.

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.

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 until it occurs, no share-based compensation expense was recognized for the fair value of the original awards. Incremental compensation expense, which is not classified as share-based compensation expense, is equal to the fair values of the two new compensation schemes included in the exchange program as of the date of the modification resulting from the exchange program.

For Scheme I, compensation expense of \$3.9 million was recognized as of September 30, 2014 with respect to the modification, and \$0.8 million will be recognized in the consolidated statements of comprehensive income ratably over the remaining vesting period of the awards. For Scheme II, the incremental compensation expense varies depending on 7Road's financial performance.

## **Changyou Employee Incentive Plans**

On February 8, 2014, Changyou's Board of Directors approved three new employee incentive plans with terms of 10 years, effective January 1, 2014, under which Changyou may pay compensation to employees based on Changyou's profits, or the profits of specified projects. Eligible employees will receive a cash award from the plans as a bonus based on the number of employee incentive instruments they hold in the plans.

Under two of these three plans, Changyou may pay compensation to employees based on Changyou's profits. Changyou will distribute to eligible employees who participate in the plans up to 5% of Changyou's annual adjusted net profits. Combined, these two plans will distribute up to 10% of Changyou's annual adjusted net profits. Eligible employees will participate in these plans by paying an amount to purchase instruments that will entitle them, while they are employed by Changyou, to receive annual compensation under the plans. After four years of service to Changyou, employees who participate in either of these two plans will be entitled to sell their instruments to other employees at any time during their employment with Changyou at a price negotiated between the two employees, and by doing so would be compensated with the present value of their expected future cash bonuses for the remaining period of the incentive plans. Management concluded that compensation expense associated with these two plans should be accounted for by analogy to deferred compensation arrangements, and that the present value of the amounts forecasted to be distributed under the plans should be amortized over the first four years after the effective date of the plans, before the instruments are first allowed to be transferred to other employees; that the present value of future cash bonuses in the remaining period should be re-measured at each reporting date; that the gain or loss resulting from the re-measurement in the first four years should be amortized over the remaining portion of the four-year period; and that the gain or loss after the four-year period should be booked immediately upon re-measurement at each reporting date after the four-year period. For the three and nine months ended September 30, 2014, compensation expense recognized for these two plans was \$1.5 million and \$4.3 million, respectively.

The third employee incentive plan is structured to allow eligible employees to receive up to 20% of the annual adjusted net profits of projects that they work on. Unlike under the first two plans, certain of the incentive instruments to be issued under this plan will permit participating employees to sell the instruments to other employees at any time during their employment, and certain of the incentive instruments will not permit participating employees to sell their instruments to other employees. Management concluded that compensation expense in the former case should be accounted for by analogy to deferred compensation arrangements, and accordingly should be accrued as of the effective date of the plan at the then present value of the amounts forecasted to be distributed under the plan; that the gain or loss resulting from the re-measurement of the cash bonus in the remaining period of the plan should be booked immediately upon re-measurement; and that compensation expense in the latter case should be recognized when the amount of relevant distributions under these plans is determined and Changyou's obligations are established each year. For the three and nine months ended September 30, 2014, compensation expense recognized for this plan was \$1.2 million and \$27.9 million, respectively.

## **Taxation**

### ***Income Taxes***

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

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

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

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

### ***PRC Value Added Tax and Business Tax***

Effective September 1, 2012, a pilot program (the “Pilot Program”) for transition from the imposition of PRC business tax (“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 was expanded to all regions in the PRC. Our brand advertising and search revenues as well as certain online game revenues were subject to the Pilot Program.

VAT payable on advertising and search revenues as well as online game revenues from Changyou’s Web game operations that were not developed in-house is the difference between the output VAT (at a rate of 6%) and available input VAT amount (at the rate applicable to the supplier). Other online game revenues were not affected by the Pilot Program. Before and after the Pilot Program, revenues from MMOG operations are subject to a 5% Business Tax, and revenues of 7Road that deemed to be derived from the sale of software are subject to VAT. VAT payable by 7Road is at a rate of 17%, with a 14% immediate tax refund irrespective of the availability of any input VAT, resulting in a net rate of 3%.

We adopted the net presentation method for our brand advertising and search businesses both before and after the implementation of the Pilot Program. We adopted the gross presentation method for revenues of 7Road deemed to be derived from the sale of software both 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%. To the extent that Sohu.com Inc. has U.S. taxable income, we 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.

### ***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.

### ***Net Income/(Loss) per Share***

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

- (1) Changyou’s net income/(loss) 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, and not by using the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of the Sohu Group’s diluted net income/(loss) per share, assuming a dilutive effect, 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. As a result, Changyou’s net income/(loss) attributable to the Sohu Group on a diluted basis decreased accordingly. Assuming an anti-dilutive effect, all of these Changyou restricted share units are excluded from the calculation of the Sohu Group’s diluted net income/(loss) per share. As a result, Changyou’s net income/(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group’s basic net income/(loss) per share.

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

In the calculation of the Sohu Group's diluted net income /(loss) per share, assuming a dilutive effect, the percentage of the Sohu Group's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested 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. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of the Sohu Group's diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group's basic net income /(loss) per share.

### **Fair Value of Financial Instruments**

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

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

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

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

### **Cash Equivalents**

Our cash equivalents mainly consist of time deposits and money market funds with original maturities of three months or less.

### **Restricted Time Deposits**

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

### ***Changyou Loans from Offshore Banks, Secured by Time Deposits***

As of September 30, 2014 we had, through Changyou, loans from offshore banks secured by RMB deposits in onshore branches of those banks. The loans from the offshore branches of the lending banks are classified as short-term bank loans or long-term bank loans based on their repayment period. The rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The RMB onshore deposits securing the offshore loans are treated as restricted time deposits on our consolidated balance sheets.

### ***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 fair values are reflected in the consolidated statements of comprehensive income.

### **Accounts Receivable, Net**

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

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### **Available-for-Sale Securities**

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

On August 12, 2014, Sohu acquired approximately 6% of the total outstanding common shares of Keyeast Co. Ltd., a Korean-listed company, for a purchase price of \$14.9 million. We classified this investment as available-for-sale equity securities and reported it at fair value.

### **Equity Investments**

Investments in entities are recorded as equity investments. For entities over which we do not have significant influence, the cost method is applied; for entities over which we can exercise significant influence but do not own a majority equity interest or control, the equity method is applied. For cost method investments, we carry the investment at historical cost after the date of investment. For equity method investments, we adjust the carrying amount of an investment and recognize investment income or loss for our share of the earnings or loss of the investee after the date of investment.

### **Repurchase Options and 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. On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of \$47.3 million.

Sogou’s repurchase options with Photon and China Web were initially recognized in additional paid-in capital in the Sohu Group’s consolidated balance sheets at fair value when the agreements were signed. Any subsequent changes in the fair values of the repurchase options were not and will not be recognized. On March 24, 2014, the repurchase option with China Web was exercised by Sogou. As of September 30, 2014, the remaining balance for the repurchase option with Photon in additional paid-in capital was \$1.2 million, based on the fair value of the repurchase option on September 16, 2013.

China Web’s put option with Sogou was initially recognized in other short-term liabilities in the Sohu Group’s consolidated balance sheets at fair value when the agreement was signed. Subsequent changes in the fair value of the put option were recognized quarterly in other income /(expense) in the Sohu Group’s consolidated statements of comprehensive income. After Sogou’s repurchase of the Series A Preferred Shares from China Web on March 24, 2014, the other short-term liabilities recognized with respect to China Web were reversed to zero.

Management determined the fair values of the repurchase options with Photon and China Web when the agreements were signed, and of the put option with China Web before Sogou exercised the repurchase option, using the binominal model, with a discount for lack of marketability, given that the repurchase options and the put option were not publicly traded at the time of grant. Management 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 buildings, building improvements, 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.

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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, domain names and trademarks, operating rights for licensed games and computer software purchased from unrelated third parties or acquired from business combinations. 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. Commencing in the first quarter of 2014, in order to match the current trend in viewership accumulation, we adopted an accelerated amortization pattern for certain of our purchased video content.

### ***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. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our financial statements provisional amounts for the items for which the accounting is incomplete. If a measurement period adjustment is identified, we recognize the adjustment as part of the acquisition accounting. We increase or decrease the provisional amounts of identifiable assets or liabilities by means of increases or decreases in goodwill for measurement period adjustments.

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.



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### **Contingent Consideration**

Contingent consideration consists of the fair value of potential payments related to two acquisitions made by Changyou.

Changyou's acquisition of Beijing Doyo Internet Technology Co., Ltd. ("Doyo"), included a contingent consideration arrangement that requires additional consideration to be paid by Changyou based on the achievement of specified performance milestones by Doyo for the fiscal years 2013 through 2015. The fair value of the contingent consideration was recognized on the date of the acquisition with the income approach applied. There were no indemnification assets involved.

Changyou's acquisition of the RaidCall business, included a contingent consideration arrangement that gives Changyou the right to acquire additional shares of TalkTalk Limited ("TalkTalk") at no cost if specified conditions occur through the 2014 fiscal year. The fair value of the right, which was nil, was recognized as contingent consideration on the date of the acquisition.

### **Mezzanine Equity**

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

Under ASC 480-10, we calculated, 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 was 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, and 7Road has been a wholly-owned subsidiary of Changyou since then. As the put option held by the owners of the noncontrolling interest lapsed upon the closing of Changyou's acquisition of their shares in 7Road, there was no associated accretion and no mezzanine equity during and after the third quarter of 2013.

### **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 other countries are the national currencies of those countries, rather than the U.S. dollar.

#### ***Foreign Currency Translation***

Assets and liabilities of our subsidiaries and VIEs whose functional currencies are not the U.S. dollar are translated into U.S. dollars, our reporting currency, at the exchange rate in effect at the balance sheet 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.

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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, 2014 AND 2013**

**Reclassification of Mobile Business and Mobile Segment**

Commencing in the first quarter of 2014, we reclassified the mobile business and mobile segment to the others business and the others segment, respectively, because we did not consider the mobile business to be significant enough to constitute a separate business and the CODM no longer reviewed the mobile business as a separate segment. The mobile business offers mobile-related services and mobile products, in cooperation with China mobile network operators, to mobile phone users and to China mobile network operators. Most of our mobile revenues are contributed by services provided to mobile phone users through products such as SMS, RBT, and IVR. To conform to current period presentations, the relevant amounts for prior periods have been reclassified accordingly. Such reclassifications amounted to \$14.5 million and \$43.2 million, respectively, for revenues and \$8.1 million and \$26.3 million, respectively, for costs for the three and nine months ended September 30, 2013.

**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,						
	2014	2013	2014 vs 2013	2014	2013	2014 vs 2013				
Revenues										
Online advertising:										
Brand advertising	\$148,823	35%	\$124,780	34%	\$ 24,043	\$ 393,334	33%	\$ 305,208	30%	\$ 88,126
Search and others	98,437	22%	52,305	14%	46,132	247,810	21%	134,528	13%	113,282
Subtotal of online advertising revenues	247,260	57%	177,085	48%	70,175	641,144	54%	439,736	43%	201,408
Online game	150,338	35%	161,494	44%	(11,156)	467,603	39%	497,210	49%	(29,607)
Others	32,817	8%	29,744	8%	3,073	87,134	7%	77,877	8%	9,257
Total revenues	<u>\$430,415</u>	100%	<u>\$368,323</u>	100%	<u>\$ 62,092</u>	<u>\$1,195,881</u>	100%	<u>\$1,014,823</u>	100%	<u>\$181,058</u>

Total revenues were \$430.4 million and \$1.2 billion, respectively, for the three and nine months ended September 30, 2014, compared to \$368.3 million and \$1.0 billion, respectively, for the corresponding periods in 2013. The increase in total revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$62.1 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$181.1 million. The increases were mainly attributable to increases in online advertising revenues, which were offset in part by decreases in online game revenues.

**Online Advertising Revenues**

Online advertising revenues were \$247.3 million and \$641.1 million, respectively, for the three and nine months ended September 30, 2014, compared to \$177.1 million and \$439.7 million, respectively, for the corresponding periods in 2013. The increase in online advertising revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$70.2 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$201.4 million. The increases were mainly attributable to increases in search and others revenues.

**Brand Advertising Revenues**

Brand advertising revenues were \$148.8 million and \$393.3 million, respectively, for the three and nine months ended September 30, 2014, compared to \$124.8 million and \$305.2 million, respectively, for the corresponding periods in 2013. The increase in brand advertising revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$24.0 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$88.1 million. The increases were mainly attributable to increases in revenues from the online video and real estate businesses.

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Revenues from the online video business increased \$14.2 million and \$46.8 million, respectively, for the three months and nine months ended September 30, 2014, compared to the corresponding periods in 2013. The increase was driven by our strategy of providing high-quality differentiated content and increasing the base of daily unique visitors and daily video views, which in turn resulted in higher revenues and also attracted larger numbers of advertisers. The average daily unique visitors and average daily video views for our online video business increased 48% and 128%, respectively, for the month of September 2014, compared to the month of September 2013. The number of advertisers on our online video sites increased to 306 as of September 30, 2014 from 188 as of September 30, 2013. Revenues from the real estate business increased \$3.7 million and \$15.6 million, respectively, for the three months and nine months ended September 30, 2014, compared to the corresponding periods in 2013. This increase was mainly driven by our subscription membership services and our brand advertising services. The quicker growth of our subscription membership services offered to prospective purchasers of real estate was a result of business expansion through cooperation with property developers. The number of property developers with which we had cooperation arrangements increased to 593 as of September 30, 2014 from 262 as of September 30, 2013.

We expect brand advertising revenues to be stable in the fourth quarter of 2014, compared to the third quarter of 2014.

### *Search and Others Revenues*

Search and others revenues were \$98.4 million and \$247.8 million, respectively, for the three and nine months ended September 30, 2014, compared to \$52.3 million and \$134.5 million, respectively, for the corresponding periods in 2013. The increase in search and others revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$46.1 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$113.3 million. The increase was mainly contributed by pay-for-click services. The revenue growth of pay-for-click service was principally attributable to an increase in the number of paid clicks and a higher average cost-per-click, as paid clicks increased by approximately 83% and 53%, respectively, and average cost-per-click increased by approximately 19% and 29%, respectively, for the three and nine months ended September 30, 2014 compared to the corresponding periods in 2013.

We expect search and others revenues to increase in the fourth quarter of 2014, compared to the third quarter of 2014.

### *Online Game Revenues*

Online game revenues were \$150.3 million and \$467.6 million, respectively, for the three and nine months ended September 30, 2014, compared to \$161.5 million and \$497.2 million, respectively, for the corresponding periods in 2013. The decrease in online game revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$11.2 million, and the decrease from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$29.6 million. The decrease was mainly due to decreased revenues from Changyou's Web games Wartune and DDTank in China, which have reached a relatively mature phase in their operation, and decreased revenues from Changyou's flagship MMOG, TLBB, following the strategic decision to reduce the game's difficulty.

We expect online game revenues to be stable in the fourth quarter of 2014, compared to the third quarter of 2014.

### *Others Revenues*

Revenues for other services were \$32.8 million and \$87.1 million, respectively, for the three and nine months ended September 30, 2014, compared to \$29.7 million and \$77.9 million, respectively, for the corresponding periods in 2013. The increase in others revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$3.1 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$9.3 million. The increase was mainly due to increased revenues from IVAS and cinema advertising.

[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,						
	2014	2013	2014 vs 2013	2014	2013	2014 vs 2013				
Cost of revenues:										
Online advertising:										
Brand advertising	\$ 83,424	46%	\$ 63,780	51%	\$ 19,644	\$ 230,462	47%	\$ 160,214	47%	\$ 70,248
Search and others	46,375	26%	26,785	21%	19,590	118,532	24%	72,075	21%	46,457
Subtotal of cost of online advertising revenues	129,799	72%	90,565	72%	39,234	348,994	71%	232,289	68%	116,705
Online game	33,949	19%	21,750	17%	12,199	90,798	19%	67,381	20%	23,417
Others	17,912	9%	13,175	11%	4,737	50,252	10%	42,994	12%	7,258
Total cost of revenues	<u>\$181,660</u>	100%	<u>\$125,490</u>	100%	<u>\$56,170</u>	<u>\$490,044</u>	100%	<u>\$342,664</u>	100%	<u>\$147,380</u>

Total cost of revenues was \$181.7 million and \$490.0 million, respectively, for the three and nine months ended September 30, 2014, compared to \$125.5 million and \$342.7 million, respectively, for the corresponding periods in 2013. The increase in cost of revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$56.2 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$147.4 million. The increase was mainly attributable to increases in cost of online advertising revenues.

**Cost of Online Advertising Revenues**

Cost of online advertising revenues was \$129.8 million and \$349.0 million, respectively, for the three and nine months ended September 30, 2014, compared to \$90.6 million and \$232.3 million, respectively, for the corresponding periods in 2013. The increase in cost of online advertising revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$39.2 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$116.7 million. The increase was 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 expense, and depreciation expense.

Cost of brand advertising revenues was \$83.4 million and \$230.5 million, respectively, for the three and nine months ended September 30, 2014, compared to \$63.8 million and \$160.2 million, respectively, for the corresponding periods in 2013.

The increase in cost of brand advertising revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$19.6 million. The increase mainly consisted of an \$11.8 million increase in content and license costs, and a \$4.4 million increase in bandwidth leasing costs.

The increase in cost of brand advertising revenues from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$70.2 million. The increase mainly consisted of a \$38.8 million increase in content and license costs, a \$20.9 million increase in bandwidth leasing costs, a \$3.4 million increase in salary and benefits expense, and a \$3.3 million increase in depreciation expense.

Our brand advertising gross margin was 44% and 41%, respectively, for the three and nine months ended September 30, 2014, as compared to 49% and 48%, respectively, for the corresponding periods in 2013. The decrease in our brand advertising gross margin was mainly due to the increase in content and license costs and in bandwidth leasing costs.

**Cost of Search and Others Revenues**

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

Cost of search and others revenues were \$46.4 million and \$118.5 million, respectively, for the three and nine months ended September 30, 2014, compared to \$26.8 million and \$72.1 million, respectively, for the corresponding periods in 2013.

The increase in cost of search and others revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$19.6 million. The increase mainly consisted of a \$14.0 million increase in traffic acquisition costs, a \$2.7 million increase in depreciation expense, and a \$2.7 million increase in bandwidth leasing costs.

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The increase in cost of search and others revenues from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$46.5 million. The increase mainly consisted of a \$27.3 million increase in traffic acquisition costs, a \$9.6 million increase in depreciation expense, and an \$8.4 million increase in bandwidth leasing costs.

Our search and others gross margin was 53% and 52%, respectively, for the three and nine months ended September 30, 2014, as compared to 49% and 46%, respectively, for the corresponding periods in 2013. The increase in our search and others gross margin was mainly due to higher revenues from increased paid clicks and a higher average cost-per-click, as well as traffic acquisition costs and bandwidth 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 expense, revenue-based royalty payments to game developers, bandwidth leasing costs, and depreciation and amortization expense.

Cost of online game revenues was \$33.9 million and \$90.8 million, respectively, for the three and nine months ended September 30, 2014, compared to \$21.8 million and \$67.4 million, respectively, for the corresponding periods in 2013.

The increase in cost of online game revenues from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$12.2 million. The increase mainly included a \$4.7 million increase in revenue-based royalty payments to game developers, a \$3.9 million increase in salary and benefits expense, and a \$1.5 million increase in bandwidth leasing costs.

The increase in cost of online game revenues from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$23.4 million. The increase included a \$7.9 million increase in revenue-based royalty payments to game developers, and a \$7.5 million increase in salary and benefits expense.

Our online game gross margin was 77% and 81%, respectively, for the three and nine months ended September 30, 2014, as compared to 87% and 86%, respectively, for the corresponding periods in 2013. The decreases in our online game gross margin were mainly due to additional costs of licensed MMO and mobile games that were launched in the third quarter of 2014.

### *Cost of Revenues for Other Services*

Cost of revenues for other services mainly consists of revenue-sharing payments related to the IVAS business, revenue-sharing payments paid to China mobile network operators, and payments to theatres and film production companies for pre-film screening advertisement slots.

Cost of revenues for other services was \$17.9 million and \$50.3 million, respectively, for the three and nine months ended September 30, 2014, compared to \$13.2 million and \$43.0 million, respectively, for the corresponding periods in 2013. The increase in cost of revenues for other services from the three and nine months ended September 30, 2013 to the three and nine months ended September 30, 2014 was \$4.7 million and \$7.3 million, respectively. The increases were mainly due to revenue-sharing payments related to the IVAS 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,						
	2014	2013	2014 vs 2013	2014	2013	2014 vs 2013				
Operating expenses:										
Product development	\$107,971	37%	\$ 70,551	37%	\$37,420	\$327,911	37%	\$185,731	38%	\$142,180
Sales and marketing	131,742	46%	90,728	48%	41,014	410,702	47%	221,129	46%	189,573
General and administrative	49,730	17%	29,365	15%	20,365	138,330	16%	77,726	16%	60,604
Total operating expenses	<u>\$289,443</u>	100%	<u>\$190,644</u>	100%	<u>\$98,799</u>	<u>\$876,943</u>	100%	<u>\$484,586</u>	100%	<u>\$392,357</u>

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Total operating expenses were \$289.4 million and \$876.9 million, respectively, for the three and nine months ended September 30, 2014, compared to \$190.6 million and \$484.6 million, respectively, for the corresponding periods in 2013. The increase in operating expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$98.8 million, and the increase from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$392.4 million. The increase was 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 \$108.0 million and \$327.9 million, respectively, for the three and nine months ended September 30, 2014, compared to \$70.6 million and \$185.7 million, respectively, for the corresponding periods in 2013.

The increase in product development expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$37.4 million. The increase mainly consisted of a \$28.6 million increase in salary and benefits expense, which was mainly attributable to increased headcount and increased average compensation, a \$3.7 million increase in content and license expenses, and a \$3.0 million increase in depreciation expense.

The increase in product development expenses from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$142.2 million. The increase mainly consisted of a \$73.6 million increase in salary and benefits expense, which was mainly attributable to increased headcount and increased average compensation, a \$30.2 million increase in compensation expense related to Changyou's three new employee incentive plans, most of which was recognized in the first quarter of 2014, a \$9.3 million increase in content and license expenses, a \$8.3 million increase in share-based compensation expense, a \$7.0 million increase in depreciation expense, and a \$4.6 million increase in professional service expenses.

### *Sales and Marketing Expenses*

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

Sales and marketing expenses were \$131.7 million and \$410.7 million, respectively, for the three and nine months ended September 30, 2014, compared to \$90.7 million and \$221.1 million, respectively, for the corresponding periods in 2013.

The increase in sales and marketing expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$41.0 million. The increase mainly consisted of a \$28.4 million increase in advertising and promotional expenditures, which primarily resulted from higher advertising costs for the promotion of mobile applications as part of Changyou's initiative to develop its platform business, and a \$10.7 million increase in salary and benefits expense.

The increase in sales and marketing expenses from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$189.6 million. The increase mainly consisted of a \$144.5 million increase in advertising and promotional expenditures, which primarily resulted from higher advertising costs for the promotion of mobile applications as part of Changyou's initiative to develop its platform business, a \$32.5 million increase in salary and benefits expense, which was mainly attributable to increased headcount and increased average compensation, a \$4.0 million increase in travel expenses, and a \$2.2 million increase in facility expenses.

### *General and Administrative Expenses*

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

General and administrative expenses were \$49.7 million and \$138.3 million, respectively, for the three and nine months ended September 30, 2014, compared to \$29.4 million and \$77.7 million, respectively, for the corresponding periods in 2013.

The increase in general and administrative expenses from the three months ended September 30, 2013 to the three months ended September 30, 2014 was \$20.4 million. The increase mainly consisted of a \$16.8 million increase in salary and benefits expense, which was mainly attributable to increased headcount and increased average compensation, and a \$2.6 million increase in facility and office expenses.

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The increase in general and administrative expenses from the nine months ended September 30, 2013 to the nine months ended September 30, 2014 was \$60.6 million. The increase mainly consisted of a \$31.7 million increase in salary and benefits expense, which was mainly attributable to increased headcount and increased average compensation, a \$16.2 million increase in share-based compensation expense, a \$4.0 million increase in facility expenses, and a \$3.2 million increase in depreciation expense.

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

Share-based compensation expense was recognized in costs and expenses for the three and nine months ended September 30, 2014 and September 30, 2013, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Share-based compensation expense				
Cost of revenues	\$ 469	\$ 128	\$ 1,454	\$ 296
Product development expenses	6,052	912	15,999	1,670
Sales and marketing expenses	937	359	3,751	732
General and administrative expenses	7,342	1,799	25,402	2,825
	<u>\$14,800</u>	<u>\$ 3,198</u>	<u>\$46,606</u>	<u>\$5,523</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Share-based compensation expense				
For Sohu share-based awards	\$ 1,337	\$ 730	\$ 5,242	\$2,313
For Changyou share-based awards	514	312	1,253	884
For Sogou share-based awards (1)	13,098	2,156	36,033	2,326
For Sohu Video share-based awards	(149)	0	4,078	0
	<u>\$14,800</u>	<u>\$ 3,198</u>	<u>\$46,606</u>	<u>\$5,523</u>

Note (1): Includes compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, and compensation expense equal to the excess of the repurchase price paid to employees over the fair value at the repurchase date of the Sogou Class A Ordinary Shares that we repurchased.

As of September 30, 2014, unrecognized share-based compensation expense for Sohu, Changyou and Sogou share-based awards was as follows (in thousands):

Unrecognized share-based compensation expense	As of September 30, 2014
For Sohu share-based awards	\$ 4,927
For Changyou share-based awards	2,224
For Sogou share-based awards (2)	32,795
	<u>\$ 39,946</u>

Note (2): Includes the unrecognized compensation expense for employees who transferred from Tencent with Soso search-related businesses.

### **Operating Profit/(Loss)**

For the three and nine months ended September 30, 2014, we had an operating loss of \$40.7 million and \$171.1 million, respectively, compared to an operating profit of \$52.2 million and \$187.6 million, respectively, for the corresponding periods in 2013. These changes from operating profit to operating loss of \$92.9 million and \$358.7 million, respectively, for the three and nine months ended September 30, 2014, compared to the corresponding periods in 2013, were mainly due to Changyou. Changyou's operating loss resulted primarily from higher advertising costs for the promotion of software applications for mobile devices as part of Changyou's initiative to develop its platform business, increased salary and benefits expense and higher licensing fees associated with new games to be launched later this year.

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### ***Other Income***

Other income was \$0.9 million and \$5.3 million, respectively, for the three and nine months ended September 30, 2014, compared to other income of \$1.5 million and \$5.6 million, respectively, for the corresponding periods in 2013.

### ***Net Interest Income***

Net interest income was \$7.5 million and \$24.7 million, respectively, for the three and nine months ended September 30, 2014, compared to \$7.6 million and \$19.8 million, respectively, for the corresponding periods in 2013.

### ***Income Tax Benefit/(Expense)***

Income tax benefit was \$1.0 million and \$2.6 million, respectively, for the three and nine months ended September 30, 2014, compared to income tax expense of \$18.9 million and \$55.2 million, respectively, for the corresponding periods in 2013. The income tax benefit in the third quarter of 2014 consisted of a net \$1.3 million tax benefit recognized by Sohu businesses other than Changyou, offset by \$0.3 million of income tax expense recognized by Changyou.

### ***Net Income/(Loss)***

For the three and nine months ended September 30, 2014, we had net loss of \$31.9 million and \$138.5 million, respectively, compared to net income of \$41.1 million and \$152.5 million, respectively, for the corresponding periods in 2013.

### ***Net Income/(Loss) Attributable to Noncontrolling Interest***

Net loss attributable to noncontrolling interest was \$4.8 million and \$19.1 million, respectively, for the three and nine months ended September 30, 2014, compared to net income attributable to noncontrolling interest of \$22.9 million and \$70.4 million, respectively, for the corresponding periods in 2013.

### ***Deemed Dividend to Noncontrolling Sogou Series A Preferred Shareholders***

Deemed dividend to noncontrolling Sogou Series A Preferred shareholders was nil and \$27.7 million for the three and nine months ended September 30, 2014, compared to \$82.4 million for both the three months and the nine months ended September 30, 2013.

For the nine months ended September 30, 2014, the deemed dividend resulted from Sogou's repurchase of 14.4 million Sogou Series A Preferred Shares from China Web, and was deemed to have been contributed by Sohu, as a holder of ordinary shares of Sogou, in an amount equal to the proportionate difference between the price Sogou paid to China Web for the Series A Preferred Shares and the carrying amount of these 14.4 million Series A Preferred Shares in our consolidated financial statements.

For both the three months and the nine months ended September 30, 2013, the deemed dividend resulted from 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, of which Sohu, as a holder of ordinary shares of Sogou, is deemed to have contributed \$82.4 million.

### ***Net Loss Attributable to Sohu.com Inc.***

As a result of the foregoing, we had net loss attributable to Sohu.com Inc. of \$27.1 million and \$147.1 million, respectively, for the three and nine months ended September 30, 2014, compared to net loss attributable to Sohu.com Inc. of \$64.2 million and \$18.1 million, respectively, for the corresponding periods in 2013.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Resources Analysis**

#### ***Liquidity Sources and Balance***

Our principal sources of liquidity are cash and cash equivalents, short-term investments, and cash flows generated from our operations. Cash equivalents primarily comprise time deposits and money market funds. Short-term investments comprise investment instruments issued by commercial banks in China, with a variable interest rate indexed to performance of underlying assets and the maturity dates within one year.



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As of September 30, 2014, we had cash and cash equivalents of approximately \$840.9 million, and short-term investments of \$209.5 million. Of our cash and cash equivalents, \$354.7 million was held in financial institutions inside Mainland China and \$486.2 million was held in financial institutions outside of Mainland China. Our VIEs held \$28.6 million of our cash and cash equivalents and \$812.3 million was held outside of our VIEs. In addition, as of September 30, 2014, we had, through Changyou, loans from offshore banks in the principal amount of \$370.0 million. These loans were secured by RMB deposits in onshore branches of those banks in the total amount as of September 30, 2014 of \$434.4 million, which deposits are recognized as restricted time deposits. See Item 3 'Quantitative and Qualitative Disclosure About Market Risk - Foreign Currency Exchange Rate Risk'.

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

### **Commitments**

As of September 30, 2014, we also had commitments for bandwidth purchases in the amount of \$62.9 million, commitments for video content purchases in the amount of \$52.0 million, commitments for purchases of games developed by third-parties in the amount of \$43.7 million, commitments for purchases of cinema advertisement slot rights in the amount of \$40.1 million, commitments for operating leases in the amount of \$39.7 million, and commitments for other content and service purchases in the amount of \$22.9 million.

### **Significant Cash Related Activities**

On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase /Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of \$47.3 million.

In June 2014, Sogou repurchased approximately 4.2 million of its Class A Ordinary Shares from noncontrolling shareholders, some of whom are our employees, for an aggregate purchase price of \$41.6 million.

On July 16, 2014, Changyou, through a wholly-owned subsidiary, entered into an investment agreement with MoboTap and its subsidiaries and VIEs, and MoboTap's shareholders to purchase 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash. Changyou also entered into a subscription agreement with MoboTap to purchase \$30 million in principal amount of a zero-coupon convertible bond issued by MoboTap that will be due in five years.

### **Cash Generating Ability**

Our cash flows were summarized below (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Net cash provided by operating activities	\$ 94,785	\$ 275,386
Net cash used in investing activities	(418,097)	(309,203)
Net cash provided by /(used in) financing activities	(118,888)	426,295
Effect of exchange rate change on cash and cash equivalents	(4,192)	14,829
Net increase /(decrease) in cash and cash equivalents	(446,392)	407,307
Cash and cash equivalents at beginning of period	1,287,288	833,535
Cash and cash equivalents at end of period	<u>\$ 840,896</u>	<u>\$ 1,240,842</u>

### **Net Cash Provided by Operating Activities**

For the nine months ended September 30, 2014, \$94.8 million net cash provided by operating activities was primarily attributable to our net loss of \$138.5 million, adjusted by non-cash items of depreciation and amortization of \$158.3 million, share-based compensation expense of \$29.5 million, other non-cash items of \$3.2 million, and an increase in cash from working capital items of \$46.4 million, offset by a non-cash item of change in fair value of put option of \$2.3 million, income from investments in debt securities of \$1.4 million, and change in fair value of short-term investments of \$0.4 million.

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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 intangible assets of \$1.5 million, other non-cash items of \$0.4 million, and an increase in cash from working capital items of \$30.5 million, offset by a non-cash item of investment income from investments in debt securities of \$4.1 million and change in fair value of short-term investments of \$2.3 million.

### ***Net Cash Used in Investing Activities***

For the nine months ended September 30, 2014, \$418.1 million net cash used in investing activities was primarily attributable to purchase of short-term investments of \$206.7 million, purchase of fixed assets and intangible assets of \$172.1 million, acquisition of MoboTap (net of cash acquired) of \$86.5 million, purchase of long-term investments of \$24.6 million, and cash paid related to restricted time deposits of \$13.6 million as collateral for Changyou loans from offshore banks, offset by proceeds received from debt securities at maturity of \$82.0 million, and proceeds from other investing activities of \$3.4 million.

For the nine months ended September 30, 2013, \$309.2 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 an office building acquired by Sohu and a \$35.0 million payment for an 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 \$2.6 million used for investments related to other investing activities, offset by matured short-term investments of \$32.9 million and investment income from investments in debt securities of \$4.1 million.

### ***Net Cash Provided by/(Used in) Financing Activities***

For the nine months ended September 30, 2014, \$118.9 million net cash used in financing activities was primarily attributable to Changyou's repayment of \$410.2 million loans to offshore banks, \$47.3 million used in Sogou's repurchase of Series A Preferred Shares of Sogou from China Web, \$24.6 million used in Sogou's repurchase of its Class A Ordinary Shares from its noncontrolling shareholders, \$2.8 million used in payment of contingent consideration by Changyou, and \$4.9 million used in investing activities, offset by proceeds of loans from offshore banks of \$370 million, and \$0.9 million received from the exercise of share-based awards.

For the nine months ended September 30, 2013, \$426.3 million net cash provided by financing activities was primarily attributable to \$475.5 million in cash received from Tencent in connection with Tencent's investment in and business collaboration with Sogou, \$111.5 million proceeds of Changyou loans from offshore banks, \$8.0 million received from the exercise of share-based awards, offset by \$139.7 million used for a dividend distributed by Sogou 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, \$9.0 million used for the repurchase of ADSs of Changyou and \$0.3 million used for other cash payments related to financing activities.

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

To fund any cash requirements it may have, Sohu.com Inc. may need to rely on dividends and other distributions on equity paid by our wholly-owned subsidiary Sohu.com Limited or our majority-owned subsidiary Changyou.com Limited. Since substantially all of our operations are conducted through our indirect 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, 2014, we had accrued deferred tax liabilities in the amount of \$21.5 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, most of our VIEs incurred deficits as a result of significant costs involved in their operations for the three and nine months ended September 30, 2014.

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 or absorbed a majority of the VIEs' profits or losses pursuant to contractual agreements between the VIEs and Changyou's PRC subsidiaries providing for payments to the subsidiaries in return for services provided to the VIEs by the PRC subsidiaries, significant cash balances remained in Changyou's VIEs as of September 30, 2014. 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 or losses 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, or causing Sogou to pay any dividends on Sogou.com Inc.'s ordinary shares and preferred shares, for the foreseeable future. Future cash dividends distributed by Sohu.com Inc., Changyou.com Limited, or Sogou.com Inc., if any, will be declared at the discretion of their respective Boards of Directors and will depend upon their future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as their respective Boards of Directors may deem relevant.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

## IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

The FASB issued *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which changes the threshold for reporting discontinued operations and adds new disclosures. The new guidance defines a discontinued operation as a disposal that "represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results." The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2014, and interim periods within those annual periods. Entities may "early adopt" the guidance for new disposals. We are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

On May 28, 2014, the FASB and IASB issued their long-awaited converged standard on the recognition of revenue from contracts with customers. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally. The FASB is amending the FASB *Accounting Standards Codification* and creating a new Topic 606, *Revenue from Contracts with Customers*, to supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the amendments supersede some cost guidance included in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. For a public entity, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In June 2014, under ASC 718, *Compensation—Stock Compensation*, the FASB issued *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. These amendments apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target could be achieved and still be eligible to vest in the award if and when the performance target is achieved. For all entities, the amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. We are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

## 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.

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

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

The following table sets forth a summary of our foreign currency sensitive financial instruments as of September 30, 2014, which consisted of cash and cash equivalents, restricted time deposits, short-term investments, accounts receivable, prepaid and other current assets, available-for-sale securities, 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	458,531	375,891	1,448	5,026	840,896
Restricted time deposits	9,305	434,381	0	0	443,686
Short-term investments	0	209,508	0	0	209,508
Accounts receivable	1,866	177,831	6	291	179,994
Prepaid and other current assets	2,940	117,899	1,279	942	123,060
Available-for-sale securities	15,550	0	0	0	15,550
Current liabilities	12,115	734,641	0	0	746,756
Long-term accounts payable	0	5,211	0	0	5,211
Long-term bank loans	370,000	0	0	0	370,000

### INTEREST RATE RISK

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

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

### INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 2.1% in the nine months ended September 30, 2014, compared to the growth rate for the corresponding period in 2013. While this rate of inflation declined, 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.

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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, 2013 filed with the SEC on February 28, 2014.

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

*A notice issued on September 2014 by the State Administration of Press, Publication, Radio, Film and Television (“SAPPRFT”) could have an adverse effect on the results of operations and prospects of our online video business.*

On September 2, 2014, the SAPPRFT issued a Notice on Further Strengthening the Administration of Online Foreign Audiovisual Content (the “September 2014 SAPPRFT Notice”), which requires that operators of audiovisual Websites obtain from the SAPPRFT a Film Public Screening Permit, TV Drama Distribution Permit, or TV Animation Distribution Permit for all foreign films and TV dramas before they are transmitted via the Internet in China. The September 2014 SAPPRFT Notice further stipulates that before any foreign films or TV dramas for transmission exclusively via the Internet are purchased after the promulgation of the September 2014 SAPPRFT Notice, operators of audiovisual Websites must declare their annual purchasing plans with the SAPPRFT before the end of the year preceding the year of the intended broadcast and obtain the SAPPRFT’s approval. The September 2014 SAPPRFT Notice also states that the number of foreign films and TV dramas to be purchased by an operator and transmitted via its Website in a single year may not exceed 30% of the total amount of the Chinese films and TV dramas purchased and transmitted by the same Website in the previous year.

We rely heavily on foreign films and TV dramas to attract users and advertisers to our online video Website and, accordingly, the promulgation of the September 2014 SAPPRFT Notice could have an adverse impact on our online video business. We believe that the September 2014 SAPPRFT Notice requirement of a minimum ratio of domestic video content to foreign-sourced content will have the effect of requiring that we purchase more domestic video content in order to maintain our existing position and reputation as one of the leading providers of online foreign films and TV dramas in China. As competing operators in China will also be required to maintain such a minimum ratio, the September 2014 SAPPRFT Notice is also likely to have the effect of driving up the price for Chinese films and TV dramas, which would cause our expenses for video content to increase, as we will be required to both increase the amount of domestic content that we purchase and pay higher prices for the domestic content that we purchase. If, on the other hand, we respond to the minimum ratio requirement of the September 2014 SAPPRFT Notice by reducing our purchases of foreign films and TV dramas, our attraction to users and traffic on or online video Website could be reduced, resulting in a decrease in our advertising revenues.

With the exception of the foregoing, 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, 2013 filed with the SEC on February 28, 2014.

#### **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, 2014, 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.

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**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Please see the Exhibits 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 7, 2014

**SOHU.COM INC.**

By: /s/ Carol Yu

Carol Yu

President and Chief Financial Officer



Sohu.com Inc.

Quarterly Report on Form 10-Q for Quarter Ended September 30, 2014

**EXHIBITS INDEX**

- 10.1 English Translation of Convertible Bond Subscription Agreement, dated July 16, 2014, between MoboTap Inc. and Glory Loop Limited.
- 10.2 English Translation of Investment Agreement, dated July 31, 2014, among Glory Loop Limited, Beijing Gamease Age Internet Technology Co., Ltd, Baina, Forest, Matrix, Sequoia, Qualcomm, Yongzhi Yang, Tiefeng Liu, Youyang Xie, Na Zeng, Zhou Yu and Sen Li, MoboTap Inc. (Cayman Islands), MoboTap Inc. Limited, MoboTap Inc.(US), Dolphin Browser Inc., Muse Entertainment Limited, Dstore Technology Limited, Baina Zhiyuan (Chengdu) Technology Co., Ltd., Baina Zhiyuan (Beijing) Technology Co., Ltd, Beijing Baina Information Technology Co., Ltd, Baina (Wuhan) Information Technology Co., Ltd, Chengdu Xingyu Science and Technology Co., Ltd, Wuhan Xingyu Science and Technology Co., Ltd, Wuhan Hualian Chuangke Science and Technology Co., Ltd, Beijing Anzhuoxing Science and Technology Co., Ltd and Shanghai Andepurui Network Science and Technology Co., Ltd. (Portions of this exhibit have been omitted pursuant to a request for confidential treatment, and the omitted information has been filed separately with the Securities and Exchange Commission)
- 10.3 English Translation of Shareholder Agreement, dated July 31, 2014, among Glory Loop Limited, Beijing Gamease Age Internet Technology Co., Ltd, Baina Inc., Yongzhi Yang, MoboTap Inc. (Cayman Islands), MoboTap Inc. Limited, MoboTap Inc. (US), Baina Zhiyuan (Chengdu) Technology Co., Ltd, Baina Zhiyuan (Beijing) Technology Co., Ltd, Beijing Baina Information Technology Co., Ltd, Baina (Wuhan) Information Technology Co., Ltd, Chengdu Xingyu Science and Technology Co., Ltd, Wuhan Xingyu Science and Technology Co., Ltd, Wuhan Hualian Chuangke Science and Technology Co., Ltd and Beijing Anzhuoxing Science and Technology Co., Ltd. (Portions of this exhibit have been omitted pursuant to a request for confidential treatment, and the omitted information has been filed separately with the Securities and Exchange Commission)
- 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, 2014 and December 31, 2013; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013; (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013; (iv) Condensed Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2014 and 2013; and (v) Notes to Condensed Consolidated Financial Statements, tagged using four different levels of detail.

Convertible Bond Subscription Agreement

Signed on July 16, 2014

MoboTap Inc. ("the Company")

Glory Loop Limited ("the Investor")

# Convertible Bond Subscription Agreement

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## Convertible Bond Subscription Agreement

### Detailed Information

The Convertible Bond Subscription Agreement (hereinafter referred to as the “Agreement”) is made by and between the following parties:

The Company	Name	MoboTap Inc.
	Company No.	CF254908
	Place of establishment	Cayman Islands
	Address	P.O. Box 613 GT, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands
	Fax	027-87782005-8056
	E-mail	tliu@bainainfo.com
	Attn.	Tiefeng Liu
The Investor	Name	Glory Loop Limited
	Company No.	1829105
	Place of establishment	British Virgin Islands
	Address	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
	Fax	+86 010-6192 0961
	E-mail	legal@cyou-inc.com
	Attn.	Legal Department

The Company and the Investor are referred to as “both Parties” collectively and “either Party” severally herein.

### Whereas:

- (A) The Investor and the existing shareholders of the Company signed an investment agreement (the “Investment Agreement”) on July 16, 2014, under which the Investor agrees to purchase from the existing shareholders and the existing shareholder agree to sell 138,015,466 shares of all types of the Company in total which such shareholders hold (including ordinary shares, Series A preferred shares and Series A-1 preferred shares), accounting for about fifty-one percents (51%) of issued share capital of the Company (the “Equity Transaction”).

- (B) According to the terms and conditions hereof and those about convertible bonds, the Company agrees to issue and the Investor agrees to subscribe the convertible bonds with the principal of US\$30,000,000 (the “Convertible Bonds”). After the full conversion of such Convertible Bonds, the Investor will hold 60% of all of outstanding shares of the Company (on the basis of full dilution, including the equity securities issued under any existing employee stock option plan).
- (C) The price of the Convertible Bonds will be mainly used for the promotion of Dolphin Browser overseas and daily business operations of target companies, subsidiaries or affiliated companies controlled by the Company.

Therefore, based on the aforesaid conditions, in consideration of both Parties’ covenants and undertakings hereunder and their agreements upon the constraint force of the Agreement and being subject to the terms and consideration hereunder, both Parties reach the following agreement:

# Convertible Bond Subscription Agreement

## General Provisions

### 1 Definitions and Interpretations

#### 1.1 Definitions

For the purpose of the Agreement, unless the context otherwise requires, the terms shall have the meanings ascribed to them in Appendix I.

#### 1.2 Interpretations

For the purpose of the Agreement, unless the context otherwise requires,

- (a) Any reference to the Agreement includes the appendices or attachments hereof.
- (b) Any reference to any document (including the Agreement) refers to the document as revised, incorporated, supplemented, updated or replaced from time to time.
- (c) Unless otherwise explicitly stated, any reference to any clauses, appendices or attachments refers to the appropriate clauses in the body hereof, appendices and attachments to the Agreement.
- (d) “Including”, “e.g.” or any similar term refers to “including but not limited”.
- (e) Any reference to any party to the Agreement, any other agreements or documents includes the said party’s successors or replacers (including the party after replacement procedures) or permitted assignees.
- (f) Any reference to any “ordinances”, “laws” or “regulations” includes all the ordinances, laws or regulations, all instruments and texts thereunder, as well as all of them as revised, altered, incorporated, revised or replaced in part or in whole.
- (g) Any reference to “writing” or “written” includes any readable and non-temporary copied word modes, including e-mail and fax.
- (h) Any pronouns about gender or figure shall be deemed as having the attribute of masculine, feminine, singular or plural according to contents.
- (i) Unless the context otherwise requires, any obligations or undertakings fulfilled or made by more than one party hereunder shall be deemed as being fulfilled or made by such parties jointly and severally.

- (j) Any time limit explicitly specified and/or the number of days calculated from some date or the date of any known action or matter shall exclude the current day when calculating the said time limit and/or the number of days.
- (k) A day shall start from 0:00 midnight and end 24 hours later; any reference to time or date refers to Hong Kong time or date.

### 1.3 Headlines

The headline of each clause or sub-clause is set to facilitate reference only, and does not impact the explanations or meanings of the Agreement.

## 2 Subscription of Convertible Bonds

### 2.1 Subscription of Convertible Bonds

Subject to the terms and conditions hereof, the Investor agrees to purchase from the Company, and the Company agrees to issue and sell to the Investor the Convertible Bonds with the principal of US\$30,000,000 and attached with terms and conditions.

### 2.2 Consideration

The Investment agrees to pay the Company the consideration for the Convertible Bonds of US\$30,000,000 (the "Consideration").

## 3 Conditions Precedent

### 3.1 Conditions Precedent to the Investor's Closing

The completion of closing obligations of the Investor according to Article 5 hereof shall be subject to the following conditions or the written exemption issued by the Investor (in whole or in part, the said exemption may be subject to the terms and conditions probably required by the Investor):

- (a) The Company has obtained all necessary internal approvals, including resolutions passed by the board of directors and the board of shareholders, to authorize and approve the conclusion of the Agreement and fulfilment of obligations hereunder;
- (b) (If applicable) in terms of the Agreement and the transaction hereunder, the Company has obtained all necessary authorizations, consents and approvals from competent governmental agencies or relevant persons, and has properly handled all archives and registrations necessary for the conclusion, delivery and performance of the Agreement and met other formal requirements according to appropriate ordinances or any agreement binding upon the Company or assets thereof, so as to ensure that the Agreement and the transaction hereunder are legitimate and effective and have legal force;
- (c) The representations and warranties made by the Company and specified in Article 4 hereof shall be true, accurate, complete and exhaustive at the date hereof and every day before closing, just as such representations and warranties are just made at that time;



- (d) All documents specified in Article 5.2 hereof shall have been properly delivered to the Investor;
- (e) The Company shall have fulfilled and followed all obligations and conditions which are required hereunder to be fulfilled or followed at the time of or before closing;
- (f) The written consents of the shareholders and all founders of the Company have been obtained for the Agreement, the transaction contemplated hereunder as well as the exemption of their rights relating to the execution and performance of the Agreement under the shareholder agreement (including any anti-dilution right or right of first refusal);
- (g) The company controlled by founders shall have signed a share pledge agreement (the "Share Pledge Agreement"), to pledge the ordinary shares held by it (the number thereof equals nine percents (9%) of outstanding shares of the Company at that time, excluding Convertible Bonds issued hereunder) to the Investor as the guarantee for the Company's obligations under Convertible Bonds;
- (h) Founders have signed the individual warranty deed of founders; and
- (i) There are no court orders effective at that time or issued to prohibit the transaction contemplated hereunder.

### 3.2 Conditions Precedent to the Company's Closing

The completion of closing obligations of the Company according to Article 5 hereof shall be subject to the following conditions or the written exemption issued by the Company (in whole or in part, the said exemption may be subject to the terms and conditions probably required by the Company):

- (a) The Investor has obtained all necessary internal approvals, including resolutions passed by the board of directors and the board of shareholders, to authorize and approve the conclusion, delivery and performance of the Agreement and other transaction documents;
- (b) (If applicable) in terms of the Agreement and the transaction hereunder, the Investor has obtained all necessary authorizations, consents and approvals from competent governmental agencies or relevant persons, and has properly handled all archives and registrations necessary for the conclusion, delivery and performance of the Agreement and met other formal requirements according to appropriate ordinances or any agreement binding upon the Investor or assets thereof, so as to ensure that the Agreement and the transaction hereunder are legitimate and effective and have legal force;
- (c) The representations and warranties made by the Investor and specified in Article 4 hereof shall be true and complete at the date hereof and at the time of closing, just as such representations and warranties are just made at the date of closing;

- (d) The Investor shall have fulfilled and followed all obligations and conditions which are required hereunder to be fulfilled or followed at the time of or before closing; and
- (e) There are no court orders effective at that time or issued to prohibit the transaction contemplated hereunder.

### 3.3 Reasonably Best Efforts

According to the terms and conditions hereunder, either party hereto shall make reasonably best efforts to take or cause any other entity to take all actions in the most pragmatic way to conclude all further instruments and assist and cooperate with the other party to complete all matters necessary for the completion and validation of the transaction contemplated hereunder according to applicable laws (both Parties understand that either Party is not obliged to grant any or other exemptions because of this clause).

## 4 Representations and Warranties

### 4.1 The Company's Representations and Warranties

The Company hereby makes the representations, warranties and undertakings to the Investor that the following expressions are true and accurate and not misleading in all aspects at the date hereof:

- (a) The Company was established and effectively subsists under laws of the place of establishment thereof;
- (b) The Company has all rights to execute the Agreement, can exercise its rights and fulfil its obligations hereunder, and has taken all corporate actions to conclude and deliver the Agreement and fully fulfil its obligations and complete the transaction contemplated hereunder;
- (c) After being formally authorized, executed and delivered by the Company, the Agreement shall constitute an agreement effective for and bonding upon the Company and be compulsorily enforceable for the Company according to clauses hereof, but shall be subject to bankruptcy matters;
- (d) As for the execution, delivery and performance of the Agreement, the Company does and will not (i) be required to obtain the consent or approval of any competent governmental authority or any third party; (ii) violate any of the following provisions in any material respect: (A) any applicable laws or regulations or any order or decree of any governmental authority validating at the date hereof, or (B) any constitutional document; or (C) any agreement to which the Company is a party or which constraints the Company or any assets thereof;
- (e) Convertible Bonds will obtain the legal authorization of the Company at the time of issue, and will constitute direct, common, non-subordinated, unconditional and unsecured debt repayment obligations of the Company at the time of issue and delivery according to the Agreement and relevant terms and conditions, and such obligations have the equal sequence of rights and interests and do not have any privilege;

- (f) Converted shares will be ordinary shares with the consideration fully paid at the time of issue and no taxes able to be levied, be allotted and issued properly and legally, and have the equal sequence of rights and interests with existing ordinary shares in all aspects. Save as otherwise stipulated by applicable laws, converted shares shall not have any claim, mortgage, charge, easement, encumbrance, lease, covenant, mortgage right, right of lien and pledge at the time of issue; and
- (g) Other representations and warranties made by all warrantors (except Forest, Matrix, Sequoia and Qualcomm) (as defined in the Investment Agreement) specified in Appendix IV to the Investment Agreement. For the purpose of this paragraph, such representations and warranties shall constitute a part hereof, just as they are specified hereunder.

#### 4.2 The Investor's Representations and Warranties

The Investor hereby makes the representations, warranties and undertakings to the Company that the following expressions are true and accurate and not misleading in all aspects at the date hereof:

- (a) The Investor was established and effectively subsists under laws of the place of establishment thereof;
- (b) The Investor has all rights to execute the Agreement, can exercise its rights and fulfil its obligations hereunder, and has taken all corporate actions to conclude and deliver the Agreement and fully fulfil its obligations and complete the transaction contemplated hereunder;
- (c) After being formally authorized, executed and delivered by the Investor, the Agreement shall constitute an agreement effective for and bonding upon the Investor and be compulsorily enforceable for the Investor according to clauses hereof, but shall be subject to bankruptcy matters;
- (d) As for the execution, delivery and performance of the Agreement, the Investor does and will not (i) be required to obtain the consent or approval of any competent governmental authority or any third party; (ii) violate any of the following provisions in any material respect: (A) any applicable laws or regulations or any order or decree of any governmental authority validating at the date hereof, or (B) any constitutional document; or (C) any agreement to which the Investor is a party or which constrains the Investor or any assets thereof;
- (e) The Investor has enough funds to pay the Consideration necessary for the subscription of Convertible Bonds in full.

5 Closing

5.1 Closing Time and Place

Closing shall be conducted in the form of virtual electronic closing within five (5) business days after the closing of the Equity Transaction and all conditions specified in Article 3 hereof being met or exempted from (as the case may be), or be conducted according to other date, time, place and form agreed by both Parties in writing, provided that all conditions specified in Article 3 hereof are met or exempted from (as the case may be).

5.2 The Company's Obligations to the Closing

At the time of or before closing, the Company shall deliver or cause other persons to deliver the following documents to the Investor:

- (a) the copies of resolutions of the board of directors and shareholders of the Company about matters such as approval of execution, performance and delivery of the Agreement (including but not limited to the issue of the Convertible Bonds); if any director signing the resolution of the board of directors or any shareholder signing the resolution of shareholders is a corporate body, then, the copies of the resolutions of the board of directors and shareholders of the said corporate body which approve the execution, performance and delivery of the Agreement and authorize the signature of the resolution of the board of directors or shareholders of the Company;
- (b) (i) a certified copy of the Certificate of Incumbency issued by company registration agency and (ii) a certified copy of the Certificate of Good Standing issued by Cayman Company Registry at the closing date or three (3) business days before;
- (c) an original of the Share Pledge Agreement concluded by the company controlled by founders as well as other documents which shall be delivered according to the said agreement;
- (d) an original of the certificate of Convertible Bonds attached with terms and conditions;
- (e) a certified (i.e. signed by directors of the Company) copy of bonds register issued by the Company and updated, which specifies that the Convertible Bonds have been registered under the name of the Investor;
- (f) an original of the individual warranty deed signed by founders; and
- (g) an original of agency appointment letter issued by the Company according to Article 11.3 hereof and properly signed by the agency to receive the said appointment.

5.3 The Investor's Obligations to the Closing

At the time of closing, the Investor shall (a) pay the Company the Consideration to the designated bank account in US dollars and in the form of spot T/T two (2) business days before the closing day, and the Investor shall provide the Company with the certification of the T/T document; or (b) pay the Company in any other form agreed by both Parties.

6 Termination

6.1 Termination of the Agreement

The Agreement and the transaction contemplated hereunder may be terminated or waived by both Parties in the following circumstances:

- (a) Approved by the Company and the Investor in writing; or
- (b) If closing does not occur within 30 days after the date hereof or any other date agreed by both Parties, the Agreement shall be terminated automatically.

6.2 Termination Effect

Subject to Article 6.3 hereof, if the Agreement is terminated according to Article 6.1 hereof or applicable laws, either party shall have no right to make any claim against the other Party concerning expenses, damages, compensations or other matters, except the claim made by the observant party against the breaching party concerning the violation of any clause hereof before termination.

6.3 Surviving Clauses

Articles 6 (Termination), 7 (Confidentiality), 8 (Announcement), 9 (Notice and Other Communications), 10 (General Provisions) and 11 (Governing Law and Settlement of Disputes) shall survive upon the termination of the Agreement.

7 Confidentiality

7.1 Confidentiality Obligations

The secrets, non-public or private information hereunder or relating to the following matters obtained or acquired due to negotiation about and/or conclusion of the Agreement (no matter how such information is stored and delivered or both Parties exchange it in any way) are confidential information (the "Confidential Information"). Either Party hereto shall strictly keep it confidential, and shall not arbitrarily disclose or use it except in the conditions set out in Article 7.2:

- (a) existence and clauses of the Agreement;
- (b) negotiation relating to the Agreement; and
- (c) business activities conducted by either Party to the Agreement, the said Party or any related party thereof.

7.2 Allowed Disclosure

In spite of Article 7.1, either Party to the Agreement may disclose or use the Confidential Information only in the following circumstances and scope:

- (a) The disclosure or use is required by any applicable laws, any rules of the exchange on which shares of either Party are listed, or any governmental agency, but the Party concerned shall notify the other Party of such requirement in time so that the other Party has a change to raise an objection to such disclosure or use, if any; or negotiate with the other Party about the time and contents of such disclosure or use;

- (b) The disclosure or use is necessary because of any legal procedures arising from the Agreement or any relevant agreement, or the disclosing Party discloses tax matters thereof to the tax authorities;
- (c) Regarding the conclusion or performance of the Agreement or any transaction hereunder, disclosure is made to the limited partner, shareholder, manager, director, employee, lawyer, accountant, financial consultant and other agent or representative (the “Representatives”) of either Party who need to know the Confidential Information, provided that such Representatives shall be subject to the constraints set out in Article 7 hereof in receiving such information;
- (d) Such Confidential Information may be obtained through open channels (except for the information disclosure incurred by the violation of confidentiality agreement (if any) or the Agreement); or
- (e) The other Party approves the disclosure or use in writing in advance.

8 Announcement

Either Party agrees to negotiate with the other Party before any news is released or any public statement is published with regard to the Agreement or the transaction contemplated hereunder, and will not release any news or publish any public statement before such negotiation, unless the release of any news or publication of any public statement is required by any applicable laws or the rules of the exchange on which shares of either Party are listed.

9 Notice and Other Communications

9.1 Form – All Communications

Save as otherwise explicitly stipulated hereunder, all notices, certifications, approvals, exemptions and other communications (the “Communications”) relating to the Agreement shall:

- (a) be executed in writing in Chinese or English;
- (b) be sent upon affixing of signature of sender (or authorized signatory thereof); and
- (c) be marked with persons listed in Detailed Information, or be marked according to the latest change notice, if the receiver has sent a change notice.

**9.2 Form – E-mail Communications**

- (a) E-mail communications do not need to meet the requirements in Article 9.1, but shall conform to the following provisions:
- (i) Any e-mail shall be written in Chinese or English; and
  - (ii) Any e-mail shall be marked with the full name of sender.
- (b) All e-mail communications shall be deemed as being signed by the sender at the time of sending.

**9.3 Delivery**

All communications relating to the Agreement shall be delivered in any of the following ways:

- (a) being sent to the address of the receiver listed in Detailed Information by hand;
- (b) being posted to the address of the receiver listed in Detailed Information by local ordinary mail or overseas air mail (if applicable) with postage prepaid;
- (c) being faxed to the fax number of the receiver listed in Detailed Information; or
- (d) being sent to the e-mail address of the receiver listed in Detailed Information by e-mail.

**9.4 Change of Communication Materials**

If either Party needs to change communication materials thereof listed in the Detailed Information, it may notify the other party of such a change in writing according to Article 9. The said change notice shall take effect on next business day after delivery or being deemed as having been delivered effectively. Before the validation of such a change, the notice sent by the other Party to the said Party according to the information before change shall be legal and effective.

**9.5 Effective Delivery**

Unless otherwise specified, all communications relating to the Agreement shall be deemed as being effectively delivered at the following time (whichever is the later):

- (a) when the receiver receives such communications;
- (b) in any following circumstances:
  - (i) if communications are sent by local ordinary mail, three (3) days after being sent;
  - (ii) if communications are sent by overseas air mail, three (7) days after being sent;

- (iii) if communications are sent by fax, the time indicated on the sending report after successful sending of an entire document; or
- (iv) if any communication is sent by e-mail and the sender does not receive automatic information indicating that the e-mail is not sent to the designated e-mail address, the time when the sender successfully sends the e-mail; otherwise, the time when the receiver receives the e-mail.

## 10 General Provisions

### 10.1 Severability

If any clause hereof is identified as ineffective, illegal or enforceable in whole or in part within a jurisdiction to some extent, the said part shall be deemed as severable from the other part. The remaining clauses hereof shall be valid and effective fully, and the effectiveness or enforceability of the said part shall not be impacted within any other jurisdiction. Any non-effective, enforceable or illegal clause hereof shall be deemed as being replaced by another effective and enforceable clause, and the said clause shall have the effectiveness the closest to the original meaning of the replaced clause. The severability in this clause will not be effective, if it affects the nature of the Agreement or violates public policies.

### 10.2 Complete Agreement

The Agreement constitutes an entire agreement between both Parties about the subject matter hereof, and replaces all prior written or oral understandings or agreements about the said matter.

### 10.3 Transfer

The Agreement shall be binding upon and enforceable for both Parties, successors and permitted assignees thereof. Save as otherwise approved by the other Party in writing in advance, either Party hereto shall not transfer any of its rights or obligations hereunder, but the Investor shall have the right to transfer all or part of its rights hereunder to any affiliated party, without the consent of the other Party.

### 10.4 Discretion of Exercising Rights

Save as otherwise stipulated hereunder, either Party hereto may exercise its rights, claim reliefs, give a consent or refuse to give a consent in any way it deems appropriate (including imposing conditions).

### 10.5 Failure to Exercise Rights or Failure to Promptly Exercise Rights

Save as otherwise stipulated hereunder, either Party's partial exercise, failure to exercise or delay in exercising rights or reliefs conferred by the Agreement or any applicable laws shall not be deemed as the said Party's exemption from such such rights or reliefs, or prevent or restrict the further exercise of such or other rights or reliefs according to the Agreement.

### 10.6 Cumulative Relief

The rights and reliefs conferred hereunder are those in addition to other rights and reliefs conferred by laws, and can be exercised independently.



#### **10.7 Alteration and Exemption**

Save as otherwise allowed hereunder, written documents about the amendment, change, waiver, cancellation or termination of the Agreement and clauses hereof shall be signed by both Parties. Clauses hereof or rights hereunder can be only exempted from by beneficiary in writing.

#### **10.8 Follow-up Actions**

Either Party agrees (and agrees to cause others) to conduct further action or behaviour (including obtaining consents, signing or concluding any agreement, certificate and instrument, completing and signing any other instrument or document, as well as archiving or filing any document at any competent governmental authority) upon reasonably request by the other Party for the following purposes:

- (a) so that the said Party and other relevant persons are bound by the Agreement;
- (b) so that the Agreement becomes legal, valid and legally binding; or
- (c) in order to perform the Agreement, complete the subject matter hereunder and the transaction contemplated hereunder.

#### **10.9 Explanations**

All explanation rules unfavourable to either Party for the rules are drafted by the said Party and depend on all or part of the Agreement shall not be applicable to the Agreement.

#### **10.10 Language**

The Agreement is executed in Chinese.

#### **10.11 Expenses**

The Company and the Investor shall undertake respective expenses and expenditures.

#### **10.12 Duplicates**

Both Parties may sign one or more duplicates of the Agreement, and all signed duplicates shall constitute an entire instrument with legal force.

### **11 Governing Laws and Settlement of Disputes**

#### **11.1 Governing Laws**

The Agreement shall be governed and interpreted by Hong Kong laws, except provisions about conflict of laws.

#### **11.2 Settlement of Disputes**

- (a) Any disputes incurred by or relating to the Agreement, including disputes about its conclusion, validity or termination (the "Disputes") shall be settled through arbitration after either Party sends an arbitration notice (the "Arbitration Notice") to the other Party.

- (b) The Disputes shall be awarded by Hong Kong International Arbitration Center (the “HKIAC”) at Hong Kong in accordance with Hong Kong International Arbitration Center Administered Arbitration Rules (the “Rules”) valid at the time of sending the arbitration notice. The number of arbitrators shall be three (3), with one designated by the Company, one by the Investor, and one jointly by the arbitrators designated by both Parties. Both Parties shall respectively designate arbitrators within in fifteen (15) days after sending the arbitration notice, otherwise such arbitrators will be designated by the chairman of the HKIAC. If designated arbitrators do not designate the third arbitrator within fifteen (15) days after the second arbitrator is designated, the third arbitrator shall be designated by the chairman of the HKIAC and have legal practicing qualifications in Hong Kong.
- (c) Arbitration procedures shall be conducted in English. If the Rules run counter to any clause of Article 11.2, including the clause about designation of arbitrators, the said clause of Article 11.2 shall prevail.
- (d) Either party of arbitration procedures shall cooperate with the other party, and fully disclose and provide materials and documents relating to the said arbitration procedures upon request by the other Party, unless the said party undertakes binding confidentiality obligations.
- (e) The award of the arbitral tribunal shall be final and binding upon both Parties, and the dominant party may apply to the court with jurisdiction to execute the said award.
- (f) The arbitral tribunal shall award the dispute submitted by either Party for arbitration in strict accordance with the substantive laws of Hong Kong (except the rules of conflict of laws), and shall not apply any other substantive laws.
- (g) If possible, before the constitution of the arbitral tribunal, either Party of the dispute shall have the right to seek preliminary compulsory relief from the court with jurisdiction.
- (h) In the course of the arbitral tribunal making an award for a dispute, both Parties shall continually perform the Agreement, except the disputable part under arbitration.

### 11.3 Appointment of Agent

- (a) The Investor irrevocably appoints Changyou.com HK Limited, of Room D, 26/F, Legend Tower, 7 Shing Yip St., Kwun Tong, Hong Kong, as its agent receiving legal procedure documents or arbitration documents (the “Agent”) to receive all legal procedure documents or arbitration documents relating to the Agreement on behalf of the Investor.
- (b) If the Agent cannot continually work as the Agent of the Investor for any reason, the Investor shall appoint any other person in Hong Kong for substitution, and notify the Company of such a change in time.

- (c) The Investor agrees that any legal procedure documents or arbitration documents properly delivered by the Agent are deemed as having been delivered to the Investor fully and properly.
- (d) The Company irrevocably appoints Changyou.com HK Limited, with the company No. 1596431 and of Room C, 21/F, CMA Building, No. 64 Connaught Road, Central, Hong Kong, as its agent receiving legal procedure documents or arbitration documents (the "Agent") to receive all legal procedure documents or arbitration documents relating to the Agreement on behalf of the Company.
- (e) If the Agent cannot continually work as the Agent of the Company for any reason, the Company shall appoint any other person in Hong Kong for substitution, and notify the Investor of such a change in time.
- (f) The Company agrees that any legal procedure documents or arbitration documents properly delivered by the Agent are deemed as having been delivered to the Company fully and properly.

## Appendix I - Definitions

<u>Term</u>	<u>Definition</u>
Series A preferred shares	refer to Series A preferred shares of the Company, with the book value of US\$0.0001, and attached with rights and privileges specified in the constitutional documents of the Company.
Series A-1 preferred shares	refer to Series A-1 preferred shares of the Company, with the book value of US\$0.0001, and attached with rights and privileges specified in the constitutional documents of the Company.
The Agreement	has the meaning ascribed to it in the “Detailed Information” part of the Agreement.
Founders	refer to Yongzhi Yang, Tiefeng Liu, Na Zeng, Zhou Yu and Sen Li.
Individual warranty deed of founders	refers to the warranty deed signed by founders about obligations of founders, Baina and all group companies for the transaction contemplated under the warranty investment agreement as well as the obligations about convertible bonds to be fulfilled by a Cayman company.
Company controlled by founders	Baina Inc., a company with limited liability established in accordance with laws of the British Virgin Islands, with its registered address at Coastal Building, Wickham’s Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands.
Representatives	have the meaning ascribed to them in Article 7.2 (c) of the Agreement.
Agent	has the meaning ascribed to it in Article 11.3 (a) of the Agreement.
Consideration	has the meaning ascribed to it in Article 2.2 of the Agreement.
Both Parties or either Party	have/has the meaning ascribed to them or it in the “Detailed Information” part of the Agreement.
Company	has the meaning ascribed to it in the “Detailed Information” part of the Agreement.
Share pledge agreement	has the meaning ascribed to it in Article 3.1 (g) of the Agreement.
Equity transaction	has the meaning ascribed to them in Paragraph (A) of recitals of the Agreement.
Confidential information	has the meaning ascribed to it in Article 7.1 hereof.

Group companies	refer to the Company and any wholly-owned or non-wholly-owned subsidiaries (having the definition ascribed to them in the Companies Ordinance (Chapter 622, Laws of Hong Kong) (for the avoidance of any doubt, including all companies in China, Hong Kong subsidiaries, the US subsidiary and Japanese subsidiary), and the “Group” refers to the collective reference of all group companies.
Closing	refers to the completion of the transaction contemplated hereunder according to Article 5 of the Agreement.
Closing date	refers to the current day of closing.
Convertible bonds	have the meaning ascribed to them in Paragraph (B) of the “Detailed Information” part of the Agreement.
The US	refers to the United States of America.
US subsidiaries	MoboTap Inc., a company with limited liability established in accordance with Delaware laws of the US, with the registration No. 4858587 and its address at Delaware Corporations LLC, 800 Delaware Ave., the City of Wilmington, County of New Castle, Delaware 19801.
Bankruptcy matter	refers to the occurrence of any of the following circumstances: (a) the Company or any group company institutes any lawsuit, legal proceedings or other legal act: (i) to seek an award about insolvency or bankruptcy, or seek any relief order or other order about approving any relevant case or legal procedures according to any current prevailing or future laws about bankruptcy, restructuring, arrangement, debt adjustment, debt relief, dissolution, insolvency or liquidation within any jurisdiction; or (ii) to appoint any custodian or similar person for its properties or major properties, and the appointment is not cancelled or delayed within sixty (60) days later; (b) there is any lawsuit or legal procedures instituted against the Company or any group company: (i) resulting in any relief order, or any award or appointment; or (ii) which is not cancelled within sixty (60) days after start; (c) the Company or any group company (i) transfers all properties for the interests of creditor; (ii) holds meetings with the creditor to negotiate about the reorganization, adjustment or restructuring of debts; or (iii) explicitly expresses its consent, approval or acquiescence of any of the aforesaid matters through action or inaction, or conducts any corporate or other action in order to make any of the aforesaid matters occur.
Ordinary shares	refer to ordinary shares of the Company, with the book value of US\$0.0001, and attached with rights and privileges specified in the constitutional documents of the Company.
Person	refers to any individual, or company, partner, limited partner, wholly owned enterprise, business, property, trust, corporate or incorporated body, joint venture enterprise, company with limited liability, joint stock company, government (or the agent or branch thereof) or the entity of any other type.

Japan	refers to Japan.
Japanese subsidiary	refers to Dolphin Browser Inc., a company with limited liability established according to Japanese laws, with its registration No. 011001091188 and address at 4-3-17, Toranomon, Shinjuku, Tokyo Shinjuku.
Applicable laws	refer to, for the purpose of any person, any constitution, laws, regulations, ordinances, rules, the rule of law, by-laws, approvals, orders, decrees, awards, guidelines, policies, requirements or other governmental restrictions applicable to the said person, or any subsidiary or assets thereof, or the similar binding formulations, decisions, identifications or interpretations made by any governmental agencies for the aforesaid matters effective at the execution date of the Agreement or thereafter.
Communications	have the meaning ascribed to them in Article 9.1 hereof.
Investment agreement	has the meaning ascribed to them in Paragraph (A) of recitals of the Agreement.
Investor	has the meaning ascribed to it in the “Detailed Information” part of the Agreement.
Shareholder agreement	refers to the revised and restated shareholder agreement concluded according to the Investment Agreement by and between the company controlled by founders, the Investor, the Company, MoboTap Inc. Limited, Muse Entertainment Limited, MoboTap Inc., Baina Zhiyuan (Beijing) Technology Co., Ltd., Baina Zhiyuan (Chengdu) Technology Co., Ltd., Beijing Baina Information Technology Co., Ltd., Baina (Wuhan) Information Technology Co., Ltd. and all founders.
Hong Kong	refers to Hong Kong Special Administrative Region of the People’s Republic of China.
Hong Kong subsidiaries	refer to the following companies: <ul style="list-style-type: none"> <li>(a) MoboTap Inc. Limited, a company with limited liability (invested or controlled by a natural person) established under the laws of Hong Kong, with its registration of 420100000199726 and address at 3/F, Building A2, Phase 1 of Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan;</li> <li>(b) Dstore Technology Limited, a company established under the laws of Hong Kong, with its registration No. 2017908 and address at Flat E5, 9/F, Blk E, Wah Lok Industrial Centre (Phase II), Nos. 31-35, Shan Mei Street, Fo Tan, Shatin, NT, Hong Kong; and</li> <li>(c) Muses Entertainment Limited, a company with limited liability established under the laws of Hong Kong, with its registration No. of 1756288 and address at Flat 2, 19, Henan Building, 90-92 Jaffe Road, Wanchai, Hong Kong.</li> </ul>

HKIAC	has the meaning ascribed to them in Article 11.2 (b) of the Agreement.
Terms and conditions	refer to the terms and conditions of issue of convertible bonds specified in Appendix II below.
USD or dollar	refers to the legitimate currency of the US.
Converted shares	refer to shares converted into ordinary shares according to terms and conditions and issued to the Investor.
Business day	refers to any calendar day other than Saturday, Sunday or any statutory holiday of China, British Virgin Islands and Hong Kong.
Constitutional documents	refer to, for the purpose of any corporate body, its memorandum and articles of association, or other similar organizational and governing documents.
Dispute	has the meaning ascribed to them in Article 11.2 (a) of the Agreement.
Bonds register	refers to the register kept by the Company according to terms and conditions in its registration office to record the registration and transfer of convertible bonds.
Arbitration rules	have the meaning ascribed to them in Article 11.2 (b) of the Agreement.
China	refers to the People's Republic of China, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan only for the purpose of the Agreement.
Companies in China	refer to the following companies: <ul style="list-style-type: none"> <li>(a) Baina Zhiyuan (Beijing) Technology Co., Ltd., a company with limited liability (solely funded by Hong Kong, Macau or Taiwan legal person) established under the laws of China, with its registration No. 110000450183446 and address at South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing;</li> <li>(b) Baina Zhiyuan (Chengdu) Technology Co., Ltd., a company with limited liability (solely funded by Hong Kong, Macau or Taiwan legal person) established under the laws of China, with its registration No. 510100400043032 and address at Rooms 102-112, 1/F, Building No.1, Zone A, Tianfu Software Park, No. 765 Middle Tianfu Avenue, Chengdu Hi-tech Zone, Sichuan;</li> <li>(c) Beijing Baina Information Technology Co., Ltd., a company with limited liability (invested or controlled by a natural person) established under the laws of China, with its registration No. 110108012702434 and address at South 2-1-7, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing;</li> </ul>

- (d) Baina (Wuhan) Information Technology Co., Ltd., a company with limited liability (invested or controlled by a natural person) established under the laws of China, with its registration No. 420100000199726 and address at 3/F, Building A2, Phase 1 of Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan;
- (e) Wuhan Xingyu Science and Technology Co., Ltd. (Company Registration No. 420100000376093), whose registered address is located at Room 2, 5/F, Building 1, Phase 3 Guannan Fuxing Medicine Park, No.58 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan;
- (f) Chengdu Xingyu Science and Technology Co., Ltd. (Company Registration No. 510109000353845), whose registered address is located at No.39, 6/F, Unit 2, Building 1, No.222 Tianren Road, Hi-tech Zone, Chengdu;
- (g) Wuhan Hualian Chuangke Science and Technology Co., Ltd. (Company Registration No. 40100000123236), whose registered address is located at Room 401, Block A, 3 # Building, SBI Venture Street, Dongxin Road, East Lake High-tech Development Zone, Wuhan;
- (h) Beijing Anzhuoxing Science and Technology Co., Ltd. (Company Registration No. 110108010360883), whose registered address is located at Room 4037, Huaqingyuan Hotel 1A, 1B and 1C, Building 13, Huaqingjia Park, Dongsheng Zone, Wudaokou, Haidian District, Beijing; and
- (i) Shanghai Andepurui Network Science and Technology Co., Ltd. (Company Registration No. 310115002064099), whose registered address is located at Room 112, Building 2, No.700 Shangfeng Road, Pudong New Area, Shanghai.



No.:

MOBOTAP INC.

*(A company with limited liability established under the laws of Cayman Islands)*

Initial bond issue date:

Initial conversion price (subject to the adjustment hereunder): US\$0.4926984 per share

Zero-coupon convertible bonds totalling US\$30,000,000 and maturing on \_\_\_\_\_, 2019

The redeemable convertible bonds (the “Bonds”) are one type of a series of redeemable convertible bonds formally authorized and legally issued by MoboTap Inc. MoboTap Inc. is a company established in Cayman Islands, with its registered office at P.O. Box 613 GT, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands (the “Company”). The Bonds are interest-coupon (0%) convertible bonds and mature at the fifth (5th) anniversary after the initial bond issue date (the Bonds and other convertible bonds of the said series are referred to as the “Convertible Bonds” collectively).

For value received, the Company undertakes that it will pay or have been paid the principal of US\$30,000,000 specified hereunder to the holder of the Bonds or allowed assignee thereof (the “Holder”) to redeem the Bonds at the fifth (5th) anniversary after the initial bond issue date or the date of advance repayment of the Bonds required or allowed hereunder (the “Maturity Date”). The Bonds shall be subject to the following supplementary provisions:

1 Definitions

For this purpose, save as otherwise agreed by the Bonds, (a) the meanings of terms used for the Bonds are the same as those of terms used in the Subscription Agreement; and (b) the following terms have the following meanings:

Holder has the meaning ascribed to it in the second paragraph hereof.

Initial bond issue date refers to the first date of issue of bonds, in spite of any transfer of any bonds and the number of instruments which may be issued to certify the said bonds.

Initial conversion price refers to the initial conversion price used at the initial bond issue date, i.e. US\$0.4926984 per ordinary share, in spite of any future adjustment made according to Article 5.

Warranty document refers to share pledge agreement.

Maturity Date has the meaning ascribed to them in the second paragraph hereof.

Corporate securities refer to ordinary shares and shares into which other types of securities may be reclassified or converted later.

Corporate security equivalents are the collective reference of options and convertible securities.

Share delivery date has the meaning ascribed to it in Article 4.4 (b) hereof.

Key personnel refer to Yongzhi Yang, Tiefeng Liu, Zhou Yu, Sen Li, Huazhen Tan, Yan Yu, Hongliang Li, Jitang Hu and Chaodong Wu.

Convertible securities refer to any shares and securities which may be converted, exercised or exchanged into any corporate securities, except options.

Convertible Bonds have the meaning ascribed to them in the first paragraph hereof.

Transaction documents refer to all documents relating to the subject transactions of the Agreement or the investment agreement, including but not limited to the Agreement, investment agreement, shareholder agreement (as defined in the investment agreement), share pledge agreement and individual warranty of founders (as defined in the investment agreement).

Options refer to any rights, warrants or options used to subscribe or purchase any securities or convertible securities of the Company.

Subscription agreement refers to the convertible bond subscription agreement signed by and between the Company and the investor on [\*] [\*], 2014, including the amendment, alteration or supplementation to it from time to time.

Initial public offering refers to the initial public offering on any recognized securities exchange (including but not limited to New York Stock Exchange, the Stock Exchange of China and London Stock Exchange) according to applicable laws and the listing rules of recognized securities exchange.

Event of default has the meaning ascribed to it in Article 8.1 hereof.

Reserved shares refer to the ordinary shares reserved by the Company for employee stock option plan.

Employee stock option plan refers to the employee stock option plan adopted on December 28, 2011 as well as the US appendix adopted on May 4, 2013.

Bonds have the meaning ascribed to them in the first paragraph hereof.

Conversion price has the meaning ascribed to it in Article 4.3 hereof.

Conversion date has the meaning ascribed to it in Article 4.1 (b) of the Bonds.

Notice of conversion has the meaning ascribed to it in Article 4.1 (b) of the Bonds.

2 Interest

2.1 No interest

The Bonds are zero-coupon bonds subject to the conditions set out in Article 8.2 hereof and are not attached with rights of payment of interests.

### 3 Registration, Transfer and Replacement of the Bonds

#### 3.1 Bonds register

- (a) The Company shall keep bonds register in its registration office, i.e. the register used by the Company to record the registration and transfer of the Bonds, and record the name and address of Holder and each approved assignee. Holder shall notify the Company of any change in the name or address, if any, and the Company shall promptly record the said information into the bonds register after receiving the said notice.
- (b) The Bonds are registered bonds. Save as otherwise stipulated by applicable laws, registered Holders shall be absolute owners of the Bonds for all purposes (no matter whether the Bonds are outstanding or there is any notice about ownership, trust arrangement or other rights, or any notice about any mark (except the countersign for transfer) on the physical bonds) or the loss or theft of the Bonds), and nobody needs to bear any legal liability for the identification of the said Holder as actual owners.

#### 3.2 Transfer

- (a) Holder may transfer the Bonds at its discretion at any time.
- (b) The transfer completed as per the following procedures shall come into effect immediately: (i) properly filling in transfer instrument; (ii) submitting the originals of the transfer instrument and physical bonds to the office of the Company at the registered address; and (iii) paying all amounts payable for the transfer (including but not limited to relevant taxes or charges levied by competent governmental authorities).
- (c) The Company shall post or register the mail (with postage prepaid) of new bonds (originals of physical bonds) within five (5) business days after receiving the transfer instrument, or prepare the originals of physical bonds at the office at the registered address for the demand of new holder.

#### 3.3 Replacement

If any Bonds are lost, stolen, damaged, stained or destroyed, the Holder may replace them at the office of the Company at the registered address subject to the requirements of all applicable laws, and the Holder shall pay for all rights relating to the replacement of the Bonds, and provide evidences, guarantee, indemnity or other things for the replacement as reasonably required by the Company. Destroyed and stained bonds shall be returned to the Company at the replacement of the Bonds.

## 4 Conversion

### 4.1 Freewill offering

- (a) At any time from the initial bond issue date to the time of complete payment of the Bonds, the Holder may choose to convert all or part of outstanding principal of the Bonds into ordinary shares.
- (b) The Holder shall convert the Bonds by sending a conversion notice to the Company, and definitely specify the principal of the Bonds to be converted as well as the validation date of the conversion (the "Conversion Date"). The form of the said notice is recorded in Annex A (the "Notice of Conversion"). If the Notice of Conversion does not definitely specify the Conversion Date, the Conversion Date shall be the date when the Notice of Conversion is deemed as having been delivered.
- (c) After receiving the Notice of Conversion, the Company shall promptly notify the Holder of the number of converted shares to be issued to the Holder according to the Notice of Conversion by phone and fax.
- (d) In order to validate the conversion, the Holder shall not be required to actually hand over the originals of the Bonds to the Company, unless all the principal of the Bonds has been converted. According to this provision, the effect of the provision is reducing the outstanding principal of the Bonds by applicable conversion amount. The Holder and the Company shall make a record of the converted principal of the Bonds as well as the Conversion Date.
- (e) Once receiving the Bonds, the Holder and any assignee thereof recognize and agree that due to the conditions in Article 4.1, the outstanding and unconverted principal may be less than the marked par value of the Bonds after partial transfer of the Bonds.

### 4.2 Automatic transfer

Although there is any provision hereunder, at the date of initial public offering, the outstanding principal of the Bonds shall be deemed as being automatically converted into ordinary shares at an applicable conversion price. When automatic conversion occurs, any conversion right conferred in Article 4 shall cease. For the purpose of automatic conversion, the Conversion Date shall be the date of automatic conversion.

### 4.3 Conversion price

Subject to the adjustment specified in Article 5, conversion price shall be as the same as the initial conversion price (the "Conversion Price").

### 4.4 Conversion procedures

- (a) The number of ordinary shares to be issued at the time of conversion depends on a quotient, which is obtained by dividing (i) the outstanding principal to be converted of the Bonds by (ii) currently effective Conversion Price.

- (b) Within five (5) working days after each Conversion Date (the “Delivery Date of Shares”), the Company shall hand over or cause others hand over one or more certificates of converted shares to the Holder, which shall specify the number of ordinary shares obtained by the conversion of the Bonds.
- (c) The Company undertakes that the aforesaid issued ordinary shares are officially authorized, effectively issued and fully paid and are not taxed at the time of issue.
- (d) At the time conversion hereunder, the Company does not need to issue the share certificates showing the number of ordinary shares. If the number of ordinary shares finally calculated is not an integer, the Company shall increase or lower the said number to the closest integer of ordinary shares (when the decimal is 0.5 or above, the Company shall increase the number; otherwise, the Company shall lower the number).
- (e) For the share certificates issued to the conversion of the Bonds into ordinary shares, the Holder shall not be charged of any possible documentary stamp taxes or similar taxes at the time of issue or delivery of such share certificates, provided that the Company does not need to pay any taxes probably payable for the transfer involved in the issue or delivery of such certificates at the time of conversion, and the Company does not need to issue or deliver such share certificates, unless and until the Company requires that the person with the certificates issued has paid the said taxes to the Company or has submitted a certification (satisfactory to the Company) to the Company that the taxes have been paid.
- (f) When (i) all the principal of the Bonds has been paid off and received, or (ii) all the Bonds have been converted according to clauses hereunder, all rights under the Bonds shall be terminated.

## 5 Adjustment

### 5.1 Adjustment

The initial conversion price shall be adjusted according to the following items:

#### (a) Dividends and share split

When the Bonds are outstanding at any time, if the Company: (i) pays dividends by securities or security equivalents of the Company or distributes dividends in any way (for the avoidance of any doubt, any ordinary shares issued by the Company for the conversion of the Bonds and the reserved shares distributed under the employee stock option plan shall be excluded); (ii) splits the outstanding securities of the Company in order to increase the number of shares; or (iii) incorporates outstanding securities of the Company (including the form reverse to share split) to decrease the number of shares, the Conversion Price shall be multiplied by a fraction, whose numerator is the number of outstanding securities of the Company immediate before the occurrence of the matter (excluding treasury shares but including reserved shares of the Company), and denominator is the number of outstanding securities of the Company immediate after the occurrence of the matter (including reserved shares). Any adjustment made according to the aforesaid conditions shall come into effect immediately after the record date of deciding the shareholders having rights to obtain dividends or allocations, and for the purpose of share split, incorporation or reclassification, shall come into effect immediate after such matters come into effect.

(b) Distribution of dividends in cash or allocations

When the Bonds are outstanding, if the Company distributes dividends or conducts allocations for the holders of the securities of the Company in cash only, the Conversion Price shall be decreased accordingly, the decreased amount shall be obtained by multiplying the Conversion Price effective at the record date of deciding the shareholders having rights to obtain the dividends or allocations by a fraction, whose (i) numerator is the Conversion Price effective at the said record date minus the cash amount to be distributed per security of the Company; and (ii) denominator is the Conversion Price effective at the said record date.

(c) Adjustment to other dividends or allocations

If the Company distributes dividends or conducts other allocations (excluding reserved shares distributed under the employee stock option plan) by allotting securities other than the securities of the Company at any time or from time to time (or setting a fixed record date of deciding the Holder of securities of the Company having rights to obtain dividends or allocations), the Company shall make a reserve, so that when converting any Convertible Bonds, the Holder may obtain a certain number of such other securities, except the ordinary shares to be allotted, just as the Holder converts the Convertible Bonds into ordinary shares immediately before the allotment of such other securities, which shall be subject to any other adjustment hereunder.

(d) Waiver

If the Company sets a record date of deciding the shareholders having rights to obtain dividends or allocations of the securities or any security equivalents of the Company according to conditions specified in Items (a), (b) and (c) of Article 5.1, and thereafter and before distributing the securities or any security equivalents of the Company to the Holder, legally waives the plan of payment or delivery of dividends or allocations, the Conversion Price shall not be adjusted for the reason of setting the said record date.

(e) Exceptions

In spite of other provisions, the Conversion Price shall not be adjusted for the following items:

- (i) the securities or security equivalents of the Company issued to the key employees, consultants, personnel or directors of any group companies under the employee stock option plan; or

(ii) the amounts paid by the Company under the Bonds.

## 5.2 Calculation

All calculation results under Article 5 shall be recorded to the closest one (1) cent or 0.001 (as the case may be). For the purpose of Article 5, the number of securities of the Company issued and outstanding at a special date shall be the total of securities of the Company of different types or classes issued and outstanding (including any treasury shares but including reserved shares of the Company).

## 5.3 Notifying the Holder

When the Conversion Price shall be adjusted according to any provision of Article 5, the Company shall promptly send a notice to each Holder, specifying the Conversion Price after adjustment and a brief description of facts about necessity of the said adjustment.

## 6 Redemption

During the period when the Convertible Bonds are outstanding, the Company shall not redeem any of the Convertible Bonds in advance.

## 7 Status

- (a) The Bonds at least constitute the direct, unconditional, non-subordinated and secured debt repayment obligations of the Company, have the same sequence of rights and interests as all existing or future outstanding secured debts of the Company, and are not attached with any priorities or privileges (except liabilities relating to taxation and other statutory special cases).
- (b) The Bonds, obligations of paying any amounts hereunder, and the Company, founders and obligations to be fulfilled by the Company under all transaction documents are guaranteed by guarantee documents.
- (c) The Bonds, existing or future certifications, other instruments about liabilities hereunder or any clause of agreements will not: (i) for the Company and the Holder, impair all debt repayment obligations mature and payable by the Company to the Holder according to clauses hereof (such obligations are absolute and unconditional); (ii) intentionally or probably affect relevant rights of the Holder and creditors of the Company; or (iii) hinder the Holder from exercising all rights, powers and reliefs allowed by applicable laws or otherwise allowed due to breach or any event of default specified hereunder.

## 8 Event of Default

### 8.1 Event of default

“Event of default” refers to, for the purpose of the Bonds, any of the following events (no matter what reason for the event is and whether the event occurs voluntarily or involuntarily, due to the implementation of any law or according to any judgment, award or order of any court, or any order, regulation or rule of any administrative or governmental authority):

- (a) Any of the following: (i) the principal of any bonds; or (ii) compensations for breach and other arrears under any bonds for the Holder, is overdue (no matter whether it is overdue on the Conversion Date or Maturity Date, or because of requirements of advance repayment or any otherwise regulation). For the breach in Item (ii), the breach is not remedied within twenty (20) business days;
- (b) The Company fails to comply with or perform any other covenant or agreement under the Bonds, and if the breach can be remedied, the breach is not remedied within twenty (20) business days after the Holder sends a notice of the breach to the Company;
- (c) Existing shareholders (as defined in the investment agreement), founders, the company controlled by founders or the Company breaches any obligation under transaction documents (including but not limited to all undertakings, representations and warranties);
- (d) The fulfilment of any obligation hereunder by the Company is or becomes illegal;
- (e) There is any existing, pending or potent litigation, arbitration or administrative or other judicial procedures against any group company, and such procedures are not put aside or revoked within 45 days after they are instituted;
- (f) Any key employee resigns during the period when the Bonds (or any part thereof) are outstanding (except the circumstance that any key employee does not involve in a serious breach of law and regulations, or the Holder, as a listed company, is dismissed by the Company for any reason unacceptable for market management), or any key employee seriously breaches the employment contract concluded by him and the Contract (including non-competition and confidentiality agreements); or
- (g) The Company or any group company is subject to bankruptcy matters.

## 8.2 Relief measures for events of breach

- (a) If any event of breach occurs, the Holder of Convertible Bonds may select:
  - (i) to require the Company redeeming the Bonds by the principle which are outstanding and are not converted multiplied by one hundred and thirty-eight percents (138%), and the Company shall redeem the Bonds in cash at the aforesaid price; or
  - (ii) to continually exercise other rights (including conversion rights) under the Bonds, but the principal which are outstanding and are not converted of the Bonds shall be deed as the amount calculated under Item (a) (i) of this paragraph immediately, with other clauses unchanged.



- (b) The Holder of Convertible Bonds shall notify the Company of the aforesaid matters. If the Company shall pay any amount as per Item (a) (i) of this paragraph, the Company shall pay interests for the period from the date of sending a notice to the time of irrevocably repayment of all amounts after the date of occurrence of any event of breach (the said event of breach results in the requirement of final advance repayment of the Bonds), with the interest rate calculated by ten percents each year (10% p.a.), or the maximum value (subject to the lower one) allowed by applicable laws. After irrevocable full payment, the Holder shall exchange the Bonds in time or according to the instructions of the Company.
- (c) The rights of the Holder of Convertible Bonds specified under this condition are cumulative, are additional and independent rights above other guarantees owned by the Holder at any time regarding the Convertible Bonds (in whole or in part) and other ancillary rights, powers and reliefs, and do not exclude general rights enjoyed by the Holder under laws.

## 9 Miscellaneous

### 9.1 Applicable clauses

Articles 1 (*Definitions and Interpretations*), 9 (*Notice and Other Communications*), 10.1 (*Severability*), 10.5 (*Failure to Exercise Rights or Failure to Promptly Exercise Rights*), 10.7 (*Alteration and Exemption*), 10.9 (*Explanations*), 10.10 (*Language*) and 11 (*Governing Law and Settlement of Disputes*) of the Convertible Bond Subscription Agreement are applicable to the Bonds, just as such clauses are all listed in the Bonds, and any reference to “the Agreement” in such clauses shall be deemed as reference to “the Bonds” too (unless the context otherwise requires).

### 9.2 Taxes and other charges

All amounts which the Company shall pay for the Holder under the Agreement (including but not limited to the principal and interests) shall not include taxes or other charges which shall be paid in Hong Kong or other jurisdiction according to the applicable laws of the said region at present or in future, and shall not be reduced due to withholding. If the Company shall be reduced according to applicable laws or makes the amount paid to the Holder less than the amount receivable originally for any reason, the Company shall increase the amount so that the amount received by the Holder equals the amount receivable originally.

### 9.3 Notice

All notices or other communications sent under the Agreement shall be sent by hand, registered mail, fax or e-mail in writing. All such notices shall be marked with senders and receivers, and be marked as notices under the Bonds. If any notice is sent by hand, the notice shall come into effect at the time of personal delivery; if by registered mail, the notice shall come into effect at the time marked on receipt; if by fax, the notice shall come into effect at the time indicated on the report about successful transmission of entire document automatically listed on the fax (or similar machine); and, if by e-mail, the notice shall come into effect at the time of sending (if the sender receives the automatic information about failure of transmission, the notice shall come into effect at the time when the receiver receives it). The notices delivered hereunder do not hinder the delivery means allowed by applicable laws. For the purpose of this clause, the details of delivery of notices are as below:



To :  
Address :  
Attn. :

Dear Sir,

Zero-coupon convertible bonds totalling US\$30,000,000 and maturing on , 2019 (No. [\*]) (the “Bonds”)

According to the aforesaid Bonds, this text is a notice of conversion. Terms used hereunder have the same meanings as defined in the Bonds.

The signatory hereby selects to convert the principal of the Bonds into ordinary shares according to relevant conditions, and the amount of principal and the conversion date are specified hereunder. If shares are issued to any non-signatory, the signatory shall pay all relevant transfer taxes, and submit relevant share certificate and opinions as reasonably required by the Company according to provisions. Except the transfer taxes (if any), service fees will not be charged from the Holder for any conversion.

Principal of the Bonds	:	US\$[30,000,000]
Previously converted principal	:	US\$[*]
Principal to be converted under the Bonds	:	US\$[*]
Outstanding principal immediately after conversion	:	US\$[*]
Initial conversion price	:	US\$[*] per share
Price after adjustment of initial conversion price	:	US\$[*] per share
Number of ordinary shares	:	[*]

*For and on behalf of*

[ ]

\_\_\_\_\_  
Name:  
Position:





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

English Translation

**Investment Agreement**

July 16, 2014

# Investment Agreement

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Preamble

The Investment Agreement (the “Agreement”) is made of July 16, 2014 (the “Execution Date”) by and among:

- (A) Glory Loop Limited (an overseas acquirer), a limited company legally established and validly existing under the laws of the British Virgin Islands and a wholly-owned subsidiary of Changyou.com HK Limited with registered address at PO Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the “Overseas Changyou”);
- (B) Beijing Gamease Age Internet Technology Co., Ltd. (a domestic acquirer), a limited liability company legally established and validly existing under the laws of China with its registered address at 2/F, Side Building, Jingyan Hotel, No.29 Shijingshan Road, Shijingshan District, Beijing (the “Domestic Changyou”, collectively with the Overseas Changyou, the “Changyou” or the “Buyer”);
- (C) Baina, Forest, Matrix, Sequoia, and Qualcomm (collectively, the “Overseas Sellers” and each, “an Overseas Seller”);
- (D) Yongzhi Yang, Tiefeng Liu, Youyang Xie, Na Zeng, Zhou Yu and Sen Li (the “Beijing Baina Sellers”);
- (E) Yongzhi Yang, Zhou Yu and Sen Li (the “Wuhan Baina Sellers”);
- (F) Mr. Yongzhi Yang, a citizen with an ID card of ID# \* and domiciled at \* (the “Founder”);
- (G) MoboTap Inc. (Company Registration No. CF254908) (the “Cayman Company”), a company established and existing under the laws of Cayman with its registered address at PO Box 613 GT, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands;
- (H) MoboTap Inc. Limited (Company Registration No. 1596431) (the “HK Company”), a company established and existing under the laws of Hong Kong with its registered address at Room C, 21/F., CMA Building, No.64 Connaught Road, Central, Hong Kong;
- (I) MoboTap Inc. (Company Registration No. 4858587) (the “US Company”), a company established and existing under the laws of the United States with its registered address at Delaware Corporations LLC, 800 Delaware Ave., the City of Wilmington, County of New Castle, Delaware 19801;
- (J) Dolphin Browser Inc. (Company Registration No.011001091188) (the “Japan Company”), a company established and existing under the laws of Japan with its registered address at 4-3-17 Toranomom, Shinjuku, Tokyo Shinjuku;
- (K) Muse Entertainment Limited (Company Registration No. 1756288) (“Muse”), a company established and existing under the laws of Hong Kong with its registered address at Room C, 21/F, CMA Building, No. 64 Connaught Road, Central, Hong Kong;

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

- (L) Dstore Technology Limited (Company Registration No.2017908) (“Dstore”), a company established and existing under the laws of Hong Kong with its registered address at Flat E5, 9/F Block E Wah Lok Ind Ctr (Phase II), Nos 31-35 Shan Mei Street, Fo Tan, Shatin, New Territory, Hong Kong;
- (M) Baina Zhiyuan (Chengdu) Technology Co., Ltd. (Company Registration No. 510100400043032) (“Chengdu Baina”), whose registered address is located at Room 102-112, 1/F, Building No.1, Zone A, Tianfu Software Park, No. 765 Middle Tianfu Avenue, Chengdu Hi-tech Zone, Sichuan;
- (N) Baina Zhiyuan (Beijing) Technology Co., Ltd. (Company Registration No.110000450183446) (“Beijing Baina Zhiyuan”), whose registered address is located at South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing;
- (O) Beijing Baina Information Technology Co., Ltd. (Company Registration No. 110108012702434) (“Beijing Baina Information”), a company established and existing under the laws of China with its registered address at South 2-1-7, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing;
- (P) Baina (Wuhan) Information Technology Co., Ltd. (Company Registration No. 420100000199726) (“Wuhan Baina”), a company established and existing under the laws of China with its registered address at 3/F, Building A2, Phase 1 Jinronggang, No.77 Optical Valley Avenue, Donghu Development Zone, Wuhan;
- (Q) Chengdu Xingyu Science and Technology Co., Ltd.(Company Registration No. 510109000353845) (“Chengdu Xingyu”), whose registered address is located at No.39, 6/F, Unit 2, Building 1, No.222 Tianren Road, Hi-tech Zone, Chengdu;
- (R) Wuhan Xingyu Science and Technology Co., Ltd. (Company Registration No. 420100000376093) (“Wuhan Xingyu”), whose registered address is located at Room 2, 5/F, Building 1, Phase 3 Guannan Fuxing Medicine Park, No.58 Optical Valley Avenue, Donghu New Development Zone, Wuhan;
- (S) Wuhan Hualian Chuangke Science and Technology Co., Ltd. (Company Registration No. 40100000123236) (“Hualian Chuangke”), whose registered address is located at Room 401, Block A, 3 # Building, SBI Venture Street, Dongxin Road, East Lake Development Zone, Wuhan;
- (T) Beijing Anzhuoxing Science and Technology Co., Ltd. (Company Registration No. 110108010360883) (“Anzhuoxing”), whose registered address is located at Room 4037, Huaqingyuan Hotel 1A, 1B and 1C, Building 3, Huaqingjia Park, Dongsheng Zone, Wudaokou, Haidian District, Beijing; and
- (U) Shanghai Andepurui Network Science and Technology Co., Ltd. (Company Registration No. 310115002064099) (“Andepurui”), whose registered address is located at Room 112, Building 2, No.700 Shangfeng Road, Pudong New Area, Shanghai.

The parties above are referred to collectively herein as the “Parties”, and each a “Party.”

Beijing Baina Sellers and Wuhan Baina Sellers are referred to collectively as the “Domestic Sellers” and each a “Domestic Seller.” The Overseas Sellers and Domestic Sellers are referred to collectively as the “Sellers” and each a “Seller”.

Beijing Baina Information and Wuhan Baina are collectively referred to as the “VIE company.” VIE Company, Chengdu Baina, Beijing Baina Zhiyuan, Chengdu Xingyu, Wuhan Xingyu, Hualian Chuangke, Anzhuoxing and Andepurui as well as their respective subsidiaries are collectively referred to as the “Domestic Companies” and each, a “Domestic Company”. The Cayman Company, the HK Company, the US Company, the Japan Company, Muse and Dstore are collectively referred to as the “Overseas Companies” and each, an “Overseas Company”. The Domestic Companies and the Overseas Companies are collectively referred to as the “Target Group” and each, a “Group Company”.

The Founder, the Sellers and the Target Group are collectively referred to as the “Warrantors”, and each a “Warrantor”.

**Recitals:**

- (A) The Overseas Changyou intends to take from the Overseas Sellers and the Overseas Sellers agree to transfer to the Overseas Changyou according to the Agreement that number of shares of the Cayman Company it holds as set forth opposite the Overseas Sellers’ shareholder’s name in Appendix I (the “Overseas Shares”), which accounts for 51% of the total outstanding shares of the Cayman Company (the “Overseas Transaction”).
- (B) The Domestic Changyou intends to take from the Domestic Sellers and the Domestic Sellers agree to transfer to the Domestic Changyou according to the Agreement that contribution of each VIE company they hold as set forth opposite the Domestic Sellers’ shareholder’s name in Appendix I (the “Domestic Equity”, collectively with the Overseas Shares, the “Target Equity” ), which accounts for 60% of the total contribution of each VIE company (the “Domestic Transaction”, collectively with the Overseas Transaction, the “Transaction”).
- (C) Overseas Transaction and Domestic Transaction are an integral part of the Transaction, and Overseas Transaction and Domestic Transaction must be carried out simultaneously.
- (D) The Buyer will subscribe the convertible bonds (the “Convertible Bonds”) from the Cayman Company according to the Subscription Agreement on and after the Closing Date. After the conversion of the Convertible Bonds, the Buyer will hold 60% of the outstanding shares of the Cayman Company on a fully diluted basis.

NOW, THEREFORE, the Parties hereby agree as follows with respect to the transactions hereunder through equal negotiations:

Clauses

**1 Definitions and Interpretations**

**1.1 Definitions**

For the purpose of the Agreement, unless the context otherwise requires, the capitalized terms shall have the meanings ascribed to them in Appendix III.

**1.2 Interpretations**

- (a) Any reference to the Agreement includes the appendices or attachments constituting an integral part hereof. Terms, “hereof”, “hereunder” and “herein” and the expressions with similar meanings refer to the entire agreement, rather than any certain clauses, schedules, appendices or attachments hereof. Any reference to any document (including the Agreement) refers to the document as revised, incorporated, supplemented, updated or replaced from time to time. Unless otherwise explicitly stated, (i) any reference to any appendices or attachments refers to the appropriate appendices or attachments to the Agreement, and (ii) any reference to any clauses refers to corresponding ones in the body of the Agreement.

- (b) For the purpose of the Agreement, “including” shall be deemed as being followed by “without limitation” when used.
- (c) Any reference to any party to the Agreement or any other agreements or documents shall include such party’s successors or permitted assignees.
- (d) Any reference to the “person” includes natural persons, firms, companies, government authorities, associated projects, partnerships, associations, unincorporated organizations, trust, corporations, or other entities (whether or not they have independent legal status).

## **2 Transfer Transactions of Overseas Shares**

### **2.1 Transfer of Overseas Shares**

Subject to the terms and conditions of the Agreement, and the representations and warranties contained in the Agreement and the other transaction documents, the Overseas Sellers agree to sell and transfer to the Overseas Changyou and the Overseas Changyou agrees to purchase and take the Overseas Shares from the Overseas Sellers.

### **2.2 Waiver of Claims; Exemption**

The Overseas Sellers hereby agree to waive, discharge from and permanently exempt from at Closing

- (a) any anti-dilution, rights of first refusal, pre-emptive rights and other similar rights associated with the Overseas Transaction;
- (b) It had, at present or in the future may claim against a Group Company, any and all kinds of demands, causes of action, actions, claims, promises, contracts, disputes, agreements, promises, damages claims, judgment, execution, claims and demands whatsoever with respect to the following matters, whether already filed or not filed, consequential or contingent, known or unknown or based on law or in equity:
  - (i) transaction documents and transactions contemplated thereunder; or
  - (ii) any fact or conditions existed prior to closing (including the acts, omissions or business-related factual status occurred or existed before the Closing Date).

## **3 Transfer Transactions of Domestic Shares**

### **3.1 Transfer of Domestic Shares**

Subject to the terms and conditions of the Agreement, and the representations and warranties contained in the Agreement and the other transaction documents, Domestic Sellers agree to sell and transfer to the Domestic Changyou and the Domestic Changyou agrees to purchase and take the Domestic Equity from the Domestic Sellers.

### 3.2 Waiver of Claims; Exemption

The Domestic Sellers hereby agree to waive, discharge from and permanently exempt from at Closing

- (a) any anti-dilution, rights of first refusal, pre-emptive rights and other similar rights associated with the Domestic Transaction;
- (b) It had, at present or in the future may claim against a Group Company, any and all kinds of demands, causes of action, actions, claims, promises, contracts, disputes, agreements, promises, damages claims, judgment, execution, claims and demands whatsoever with respect to the following matters, whether already filed or not filed, consequential or contingent, known or unknown or based on law or in equity:
  - (i) transaction documents and transactions contemplated thereunder; or
  - (ii) any fact or conditions existed prior to closing (including the acts, omissions or business-related factual status occurred or existed before the Closing Date).

### 4 Total Consideration

The total transfer consideration of the Transaction is US\$90,829,898 (or other equivalent currencies) (the "Consideration"), of which, US\$ 87,417,206 was paid in US dollars and US\$ 3,412,692 in Renminbi. The Consideration payable by the Buyer to a Seller is respectively set out in Appendix I. A Seller shall notify the Buyer in writing of its bank account for payment at least five (5) business days as of the payment date, and the Buyer shall pay the Consideration of the Transaction to the bank account specified by the Seller by bank transfer. The Buyer shall pay the Consideration on the Closing Date.

### 5 Conditions Precedent

#### 5.1 Conditions Precedent to the Buyer's Consent to the Closing

The Buyer's consent to the closing is subject to the Warrantor's fulfilment and its urge with the Reasonably Best Efforts for the fulfilment of other parties, to the reasonable satisfaction of the Buyer, on or before the Closing Date, of the following conditions, unless the Buyer waives in writing (whole waiver or partial waiver of the additional waiver conditions):

- (a) Due Diligence: The results of the due diligence on various aspects of the Target Group (including business, technology, finance and legal affairs) and of other due diligences are to the reasonable satisfaction of the Buyer, or all the material issues revealed by such due diligence have been remedied by the Warrantors by means to the reasonable satisfaction of the Buyer;
- (b) Key Employees: All Key Employees have signed the non-competition agreement and priority investment agreement with the related group company;

- (c) Transaction documents: The Parties have signed after negotiations, or cause other related persons sign other transaction documents other than the Agreement;
- (d) Corporate procedures: The board of directors and the board of shareholders of each Warrantor (if a company) shall adopt necessary resolutions to approve the transactions contemplated by the transaction documents and approve the execution, delivery and performance of all the transaction documents to which it is a party;
- (e) Amendments to the articles of association: Each Group Company has adopted the revised and restated articles of association (the “Articles of Association of Each Group Company”) in the format and content to the Buyer’s satisfaction;
- (f) Directors: The legal representative of each Group Company (if any), other directors rather than two (2) directors, supervisors (if any) and the general manager (if any) shall have each submitted a written resignation letter resigning their titles and the signed letter of commitment waiving all claims against the Group Companies, and such resignation letter and letter of commitment shall take effect as of the Closing Date. The legal representative of each Group Company (if applicable), three directors, supervisors (if applicable) and the general manager (if applicable) have been duly appointed as the Buyer’s designated persons with effect as of the Closing Date, and the appointment of such persons (other than the legal representative of Beijing Baina Information) has been submitted to the competent authorities for the required registration and filing;
- (g) Bank accounts and signatory: each Group Company’s current bank account signatory shall have been dismissed as of the Closing Date, and with respect to the bank account obtained by each Group Company on the Closing Date, the new bank account signatory nominated by the Buyer shall have been properly delegated on the Closing Date;
- (h) Seal: the common seal, seal, financial seal and other seals (including the legal representative’s seal (if any)) have been kept by the persons specified by the Buyer as of the Closing Date;
- (i) Corporate documents: All corporate books, financial statements and accounting, tax and other records, including the checkbooks, HR policy / employee handbook / staff code, employment contracts, all historical documents and records on the salaries, social welfare and insurance payments, capital verification report, resolutions and records of the board of directors, tax returns, original invoice, proof of payment, notices from the tax authorities, the approval of each Group Company as well as all government examination, approvals, permits and notices as of the establishment of each Group Company have been under the custody of persons specified by the Buyer;
- (j) Related register agent of each Group Company: the related register agent responsible for contacting each Group Company has been replaced by the person designated by the Buyer;
- (k) Taxes: Each Group Company shall have completely settled all taxes payable that fall due, or withhold and pay to the appropriate government authorities all taxes that it is obliged to withhold and pay the amount to be paid by any employees, creditors, customers or third parties from the amount payable by each Group Company. Each Group Company shall have satisfied according to the law all the responsibilities associated with the tax it shall bear, and each Group Company has no outstanding tax-related liability as of the Closing Date;

- (l) Accuracy of the Warrantors' and the Sellers' warranties: The warranties made by the Warrantors and the Sellers shall be true, accurate and complete in all material respects as of the Execution Date and the preceding day to the Closing Date (including the Closing Date) as if such warranties were made on all such dates;
- (m) Performance: Each Warrantor shall have fulfilled and complied with all the conventions, commitments, obligations and conditions contained in all the transaction documents at or before closing it shall fulfill and comply, including the conditions expressly set forth in present Article 5.1 and the commitments in Article 6;
- (n) Delivery of closing documents: Each Warrantor has fulfilled the obligations of closing at or before the Closing Date according to Articles 6.2, 6.3 and 6.4;
- (o) Permits: All the permits necessary for the transaction (including the permit of the Transaction from the competent government department) shall have been duly obtained without any additional conditions unacceptable by the Buyer and in full force and effect;
- (p) No material adverse effects: There are no any events that will give rise to material adverse effects;
- (q) No adverse procedures: There are no claims threaten to be filed or filed by any person or pending ones to (a) attempt to limit, prevent, or seriously affect the ownership or operation of each Warrantor for all or any material part of the business or assets of the Target Group, or cause each Warrantor to dispose of all or any material part of its business or assets, or (2) attempt to impose or confirm restrictions on the ability to complete the transaction, or the ownership to the equity by each Group Company;
- (r) No adverse legal changes: There are no changes in any claims filed by the government departments or any applicable laws proposed, enacted, implemented, published or issued by any government departments or deemed applicable to the transactions under the transaction documents or in the prevailing legal interpretations, which will, based on reasonable judgment, in any material respect, directly or indirectly limit the completion of the transactions under the transaction documents, or cause any consequences mentioned in Article 5.1 (q);
- (s) Original control protocol: The original control protocol has been terminated, and the signatory thereof has issued a confirmation letter to irrevocably discharge all the current and future liabilities, commitments, responsibilities and obligations against the Target Group related to the original control protocol, and to waive all the claims against the Target Group associated with the original control protocol;

- (t) Domain transfer: The domains (the “domains to be transferred”) as listed in Appendix IX have been transferred to the related group companies in conditions to the satisfaction of the Buyer; all the transfer fees have been paid up, and the domains have been changed to the name of the relevant group companies;
- (u) Employee handbook and standard labor contract: The standard labor contracts and the employee handbooks of the Domestic Companies have been modified to comply with the applicable laws and the modifications made are to the reasonable satisfaction of the Buyer;
- (v) Amendment to the articles of association: Chengdu Baina has modified its articles of association to comply with the applicable laws and the modifications made are to the satisfaction of the Buyer;
- (w) Registered address: Chengdu Baina, Chengdu Xingyu and Hualian Chuangke have completed their industrial and commerce procedures for the registered address and/or the corresponding change procedures for the certificate of approval, the results of which are to the satisfaction of the Buyer;
- (x) Approval certificates for enterprises established by Taiwan, Hong Kong and Macao overseas Chinese: Beijing Baina Zhiyuan has applied to the original commerce approval authority to for handling the domicile change procedures for the approval certificates for enterprises established by Taiwan, Hong Kong and Macao overseas Chinese;
- (y) Internet culture operation license: Wuhan Baina has changed its Internet culture operation license to update the information related to the registered capital, the results of which are to the satisfaction of the Buyer;
- (z) Hualian Chuangke and Anzhuoxing: Wuhan Baina has acquired the entire equity of Hualian Chuangke and Anzhuoxing;
- (aa) Employee options: (i) the Option Agreement it has signed with LI Qiangying has, Li Fan, Michael Levit and YAO Yuan and the certified copy of all outstanding options have been approved and ratified by the board of directors of the Cayman Company; (ii) the Option Agreement with respect to Hualian Chuangke has already been signed with its employees, in form and substance satisfactory to the Buyer;
- (bb) Documents on behalf: Cayman Company has entered into with the Founder arrangements on behalf, pursuant to which, the Founder will hold the shares of Air Bay Creative (Hong Kong) Limited and Landscape Mobile on behalf of the Cayman Company, and perform the procedures and formalities required by the applicable laws, in a manner satisfactory to the Buyer;
- (cc) Appointment of directors: The HK Company has secured the approval and ratification from the board of directors on approving Tiefeng Liu to act as its directors;



- (dd) Dstore: Dstore has, (a) in accordance with applicable laws, (i) modified Dstore's articles of association, (ii) amended the company's internal records (including the register of members) (through the appropriate resolution) and (iii) made appropriate change registration to the Hong Kong Companies Registry in order to accurately reflect the its share capital; (b) Dstore has secured the approval and ratification from the board of directors and the board of shareholders on the failure to allocate shares pro rata; (c) Dstore has obtained the approval and ratification from the board of directors on the share certificate to be issued to all the shareholders and has issued the share certificate to all the shareholders; (d) has proved that the originals of the instrument of transfer and the bought and sold notes that were issued by Mr. Chan Joe Cho Lit to the Cayman Company have been included in the internal records of Dstore; (e) has obtained the approval and ratification from the board of directors on terminating Qiangbing Wang to act as its director and has provided the written resignation letter on Qiangbing Wang's resignation and the executed letter of commitment waiving all the claims against each Group Company; and (f) has maintained the internal records of the company, including the register of members and directors;
- (ee) "Dolphin Browser" trademark: The registrant's name of "Dolphin Browser" trademark registered under the name of the US Company has been changed, the results of which are to the Buyer's satisfaction;
- (ff) VIE control protocol: Beijing Baina Zhiyuan has signed a control protocol with VIE company and its shareholders satisfactory to the Buyer, so that Beijing Baina Zhiyuan is able to exercise effective control over the VIE company;
- (gg) With respect to Beijing Baina Information, it shall have been completed (i) the release on the original control protocol; (ii) the obligations to withhold the individual income tax domestically; (iii) the submission of the duty-paid certificate of the individual income tax to the Buyer; and (iv) the equity change registration and legal representative change registration of the Domestic Companies have been accepted by domestic industrial and commercial registration department; and
- (hh) With respect to Wuhan Baina, it shall have (i) released the original control protocol; (ii) fulfilled the obligations to withhold the individual income tax domestically; (iii) submitted the duty-paid certificate of the individual income tax to the Buyer; and (iv) provided to the Buyer the enterprise registration information sheet of Wuhan Baina printed by the information systems of the industrial and commercial registration department to prove that the Buyer or its designated person are the shareholders of 60% equity thereof; the authenticity and integrity of the information sheet are certified by the legal representative of Wuhan Baina and accepted by the Buyer.

## 5.2 Conditions Precedent to the Seller's Consent to the Closing

The Sellers' consent to the closing is subject to the Buyer's fulfillment and its urge with the Reasonably Best Efforts for the fulfillment of the present article by other parties, to the reasonable satisfaction of the Sellers, on or before the Closing Date, unless the Sellers waiver in writing (whole waiver or partial waiver of the additional waiver conditions):

- (a) The accuracy of the Buyer's warranties: The warranties made by the Buyer shall be true, accurate and complete in all material respects as of the Execution Date and the preceding day to the Closing Date (including the Closing Date) as if such closing warranties were made on all such dates;

- (b) Performance: The Buyer shall have fulfilled and complied with all the conventions, commitments, obligations and conditions contained in all the transaction documents at or before closing it shall fulfill and comply, including the conditions expressly set forth in present Article 5.2;
- (c) Delivery of closing documents: The Buyer has fulfilled the obligations of closing at or before the Closing Date according to Articles 6.5;
- (d) Corporate procedures: The board of directors and the board of shareholders of the Buyer shall adopt necessary resolutions to approve the transactions contemplated by the transaction documents and approve the execution, delivery and performance of all the transaction documents to which it is a party.

### 5.3 Reasonably Best Efforts

Each Warrantor and the Buyer shall take with Reasonably Best Efforts, or cause the other party to take the acts necessary, appropriate and advisable for completing the transactions contemplated under the Agreement as required by the Agreement and the applicable laws (including the completion of the Conditions Precedent to be fulfilled under Articles 5.1 and 5.2 and the obtainment or delivery of the closing deliverables set forth in Articles 6.2, 6.3, 6.4 and 6.5), including the preparation and submission of all documents as soon as possible to complete all the necessary notifications, reports, reporting and other filings, as well as the obtainment of all the permits necessary for completing the transaction contemplated hereunder as soon as possible.

## 6 Closing

### 6.1 Closing

The closing shall take place in virtual electronic form within five (5) days after the satisfaction or waiver of all the Conditions Precedent listed in Articles 5.1 and 5.2, or other locations or other times or dates as agreed by the Buyer and the Sellers in writing ( the "Closing Date").

### 6.2 Overseas Seller's Obligations to the Closing

At or before the Closing, the Overseas Sellers shall deliver at their own discretion or cause other parties to deliver the originals of the following documents to the Buyer, unless otherwise specified:

- (a) The instrument of transfer with respect to the transfer of the Sellers' Overseas Shares to the Buyer as duly signed by the Overseas Sellers;
- (b) Share certificates for the Overseas Shares held by the Overseas Sellers to be forwarded to the Cayman Company for cancellation;
- (c) The certificate (its contents shall be to the Buyer's reasonable satisfaction) dated the Closing Date by the authorized representatives of all the Overseas Sellers, confirming the satisfaction of the Conditions Precedent listed in Article 5.1;
- (d) The transaction documents duly signed by the Overseas Seller to which it is a party;

- (e) Allow the Overseas Sellers to enter into the Agreement, the transaction documents and complete the copies of the resolutions of shareholders and the board of directors necessary for completing the transactions contemplated under the transaction documents or other consents or approvals given according to the company's charter documents (if applicable) (in the contents and form to the reasonable satisfaction of the Buyer), including making consent to and approving (if applicable)
  - (i) the Overseas Transaction;
  - (ii) make the exemption and waiver under Article 2.2;
  - (iii) that the remaining directors except two (2) directors of Cayman company resign;
  - (iv) to exempt the signatory of the current bank account of the group companies other than the VIE company and the bank account owned by such group companies on the Closing Date and to adopt the copies of the articles of association of each Group Company of the group companies other than the VIE company, the authenticity and integrity thereof shall be certified by a director of each Group Company; and
  - (v) to prove that the person of each seller who has signed the Agreement has been duly authorized and has the right to sign the Agreement on behalf of the Seller.

### **6.3 Domestic Seller's Obligations to the Closing**

At or before the Closing, the Domestic Sellers shall deliver at their own discretion or cause other parties to deliver the originals of the following documents to the Buyer, unless otherwise specified:

- (a) The certificate (its contents shall be to the Buyer's reasonable satisfaction) dated the Closing Date by each Domestic Seller, confirming the satisfaction of the Conditions Precedent listed in Article 5.1; and
- (b) The transaction documents duly signed by each Domestic Seller to which it is a party.

### **6.4 Each Warrantor's Obligations to the Closing**

At or before the Closing, Each Warrantor shall deliver at their own discretion or cause other parties to deliver the originals of the following documents to the Buyer, unless otherwise specified:

- (a) The share certificates for the Overseas Shares under the name of the Buyer that are duly signed and issued by the Cayman Company;
- (b) The copies of the register of members certified by the company secretary of the Cayman Company, indicating that the Buyer has become a shareholder of the Overseas Shares;
- (c) Domain registration documents proving that each Group Company is a legitimate owner and an operator of the Domains to be Transferred and the relevant web pages of national website filing system;
- (d) All the documents and articles to be provided as requested by Article 5.1, as well as the evidence to the reasonable satisfaction of the Buyer to prove the satisfaction of other Conditions Precedent listed in Article 5.1;

- (e) The certificate (its contents shall be to the Buyer's reasonable satisfaction) dated the Closing Date by the authorized representative of each Warrantor (except the Sellers), confirming the satisfaction of the Conditions Precedent listed in Article 5.1;
- (f) Other transaction documents duly signed by each Warrantor and other documents (the contents and the form are to the reasonable satisfaction of the Buyer) necessary for completing the transactions contemplated under the transaction documents;
- (g) Evidence to the reasonable satisfaction of the Buyer to prove that the Articles of Association of Each Group Company have been adopted as the valid articles of association of the related companies as of the Closing Date and the change registration procedures of the Articles of Association of Each Group Company have been duly submitted to all the relevant departments;
- (h) The copies of the resolutions of shareholders and the board of directors necessary for allowing each Warrantor (except the Sellers) to enter into the Agreement and the transaction documents and to complete the transactions contemplated under the transaction documents, including making consent to and approving (if applicable)
  - (i) to execute and delivery the transaction documents to which it is a party, and fulfil its obligations thereunder;
  - (ii) to waiver any anti-dilution, rights of first refusal, pre-emptive rights and other similar rights associated with the Overseas Transaction or the Domestic Transaction (if applicable);
  - (iii) to delegate three (3) designated persons of the Buyer to act as the directors of each Group Company and one (1) designated person to act as the legal representative (if applicable);
  - (iv) to exempt the signatory of the current bank account of each Group Company and appoint a new bank account signatory as nominated by the Buyer for the bank account owned by each Group Company on the Closing Date;
  - (v) to adopt the copies of the articles of association of each Group Company, the authenticity and integrity thereof shall be certified by a director of each Warrantor; and
  - (vi) to prove that the person signing the Agreement of each Warrantor has been duly authorized by the related warrantors, and has the right to sign the Agreement on behalf of the related warrantors.
- (i) The written resignation letter that is duly resigned by other directors other than two (2) directors and one (1) legal representative of each Group Company (if applicable) and takes effect as of the Closing Date and the letter of commitment waiving all the claims against each Group Company;
- (j) with respect to the Group Companies, the register of directors of each Group Company proving that the directors nominated by the Buyer has been properly appointed and the appointment has been submitted to all the relevant departments for the change registration procedures with the authenticity and integrity thereof being certified by one director of each Group Company;

- (k) On the part of each Domestic Company, the updated business license proving that the designated person of the Buyer has become the legal representative of such Domestic Companies with the authenticity and integrity thereof being certified by the legal representative of each Domestic Company;
- (l) With respect to the bank account held by each Group Company as at the Closing Date, records of signature proving that a new bank account signatory as nominated by the Buyer has been duly appointed;
- (m) loan card of the People's Bank of China and foreign exchange registration IC card (if any) of each Domestic Company;
- (n) the policies covered by each Group Company for itself or the property, operation and activities of other group companies;
- (o) Certificate of Good Standing issued by Cayman Islands Registry of Companies with respect to the Cayman Company;
- (p) Certificate of Good Standing issued by Secretary of State of Delaware with respect to the US Company;
- (q) The legal opinion issued by the Cayman legal adviser of the Cayman Company to the Buyer (to the reasonable satisfaction of the Buyer) with respect to Cayman legal issues;
- (r) The legal opinion issued by Chinese legal adviser of the Sellers to the Buyer (to the reasonable satisfaction of the Buyer) with respect to Chinese legal issues of Wuhan Baina and Beijing Baina Information.

## **6.5 Buyer's Obligations to the Closing**

The Buyer shall, at the Closing or before the Closing:

- (a) deliver other transaction documents duly signed by the Buyer and other documents necessary for completing the transactions contemplated under the transaction documents; and
- (b) deliver the certificate (its contents shall be to the Buyer's reasonable satisfaction) dated the Closing Date by the authorized representative of the Buyer, confirming the satisfaction of the Conditions Precedent listed in Article 5.2.

## **7 Commitments before the Closing**

### **7.1 Conduct Business as Usual**

The Target Group shall conduct business as usual from the Execution Date until the Closing Date; each Warrantor shall be individually and several liable to ensure that each Group Company:

- (a) Unless otherwise agreed by the Buyer, conduct business as usual in order to achieve growth;
- (b) maintain the intactness of its existing business organization;

- (c) obtain all necessary approvals and authorizations for its normal and lawful operation, maintain the validity of all of its government licenses, obtain permissions that has not been obtained necessary for carrying out any business, and ensure that such approvals, authorizations and licenses comply with applicable laws and regulations as well as any agreements signed by each Group Company (or duly authorized under those agreements);
- (d) maintain the provision of services by its directors, officers and employees;
- (e) maintain favorable business relationships with its clients, lenders, suppliers and other persons with major business relations;
- (f) maintain the completeness and effectiveness of the insurance for each Group Company's assets, operations and activities as usually kept by the companies conducting the same business until the Closing; and
- (g) maintain its own books and records in a manner as the same as the past.

## 7.2 Restricted Activities

Unless the Buyer gives its consent in writing, and as required for the completion of the transaction contemplated hereunder and under other transaction documents, the Warrantors individually and severally undertake to the Buyer:

- (a) that, unless as agreed in the transaction documents, each Warrantor will not, prior to the Closing, exercise its right to the shareholders of each Group Company, or act in any other way to influence the valuation or the equity value and the related business of the Target Group, including the execution of any agreement or undertaking creating encumbrances on any shares of each Group Company held by each Warrantor and related activities;
- (b) that each Group Company will not, prior to the Closing:
  - (i) amend its charter documents;
  - (ii) appoint or dismiss its director, general manager or person in charge of the Finance Department and any person with the equivalent positions as aforementioned, or any other key officers; or change its remuneration portfolios or other significant terms of employment;
  - (iii) change the corporate governance structure;
  - (iv) change its capital, or declare, withdraw, or pay any dividend or other distribution (whether in cash, stock, property or a combination thereof) with respect to its securities, or redeem, repurchase or otherwise acquire any securities, or make offer to redeem, repurchase or otherwise acquire any securities;
  - (v) (1) issue, deliver or sell, or authorize to issue, deliver or sell any securities, or (2) modify any of the terms related to any securities (whether by merger, consolidation or otherwise);

- (vi) any capital expenditures, obligations or responsibilities occur in a transaction or series of similar or related transactions;
- (vii) directly or indirectly acquire (whether by merger, consolidation, stock or asset acquisition or other forms) of any assets, securities, property, interest or business;
- (viii) sell, lease or otherwise transfer any of its assets, securities, property, interest or business, or create or incur any encumbrances thereon;
- (ix) under any new liabilities, provide any loan, advance payment or contribution or invest in any other person in any form;
- (x) unless as agreed in the transaction documents, create, incur or assume or allow to create, incur or assume any loans or guarantees, or otherwise be liable for any loans or guarantees;
- (xi) (1) reach any agreement or arrangement, which limits, or otherwise restricts any of its successors, or may limit or restrict, after the Closing its own, the Buyer or any related party of the Buyer from engaging in or competing any business type in any place, or with any person; (2) reach, amend or modify, terminate, or otherwise waiver, release or transfer any material rights, requests or interests; or (3) enter into any agreement to transfer the intellectual property to a third party or to allow any third party to use the intellectual property or make any commitment to transfer any intellectual property rights to a third party or license any third party to use the intellectual property;
- (xii) (1) grant or add any dismissal fee or termination fee (or amend any existing arrangement therewith) for any director, officer or employee; (2) add any interests payable under any existing payment policies of dismissal or termination fees or the employment agreement; (3) reach any employment, delayed remuneration or other similar agreements (or amend any such existing arrangement) with any director, officer or employee; (4) create, adopt or amend (unless required by applicable laws) any collective negotiation, bonus, profit distribution, saving, pension, retirement, deferral payment of remuneration, remuneration, stock option, restrictive shares or other welfare plans or agreements applicable to any director, officer or employee; (5) add the remuneration, rewards or other welfare payable of any director, officer or employee, unless otherwise required by the applicable laws;
- (xiii) change accounting policies or methods, unless the consent of the auditors is required by the change of any principles of the U.S. GAAP or Chinese GAAP;
- (xiv) compromise, or request to or propose to compromise on the following matters: (1) any litigations, investigations, arbitrations, procedures or other claims involving each Group Company; or (2) any litigations, arbitrations, procedures or disputes related to the transaction contemplated under the Agreement;

- (xv) make or change any tax option, change any annual tax or accounting period, adopt or change any accounting methods or amend any tax returns or submit any tax refund requests, reach any settlement agreement, compromise any tax claims, audit or evaluation, waive any claims with respect to the tax refund, set-off or otherwise abate the tax liability (unless agreed by the Buyer)
- (xvi) sign any management consulting agreement or any other agreements making the Company to commit US\$50,000 or over (whether single or series of agreements), except those signed according to the transactions contemplated hereunder; or
- (xvii) agree, resolve or commit to conduct any of the foregoing acts.

### **7.3 Conditions Precedent to the Completion of the Closing:**

Each Warrantor shall use its Reasonably Best Efforts to cause the satisfaction of the Conditions Precedent to the Closing as agreed in Article 5.1, including (i) to take necessary actions to protect the execution, delivery and performance of any documents involved in any Conditions Precedent to which each Warrantor is a party; (ii) to cause each Warrantor to adopt the resolutions of shareholders or of the board of directors to approve the transaction under the Agreement and to amend and / or adopt the Articles of Association of Each Group Company and all related transaction documents; and (iii) to provide maximum assistance with respect to the remedies and court procedures.

### **7.4 Information Provision before the Closing**

- (a) The Buyer and / or its representatives has/have the right to conduct due diligence on the Target Group. All parties shall work together to ensure that the confirmatory due diligence is completed based on a reasonable timetable without undue delay.
- (b) From the Execution Date to the Closing Date (including the Closing Date), as well as during the due diligence period, each Warrantor shall provide the Buyer with all information (including financial and other information) related to each Group Company and its business as required by the Buyer and / or its representatives. Each Warrantor shall provide and cause each Group Company to provide all cooperation and assistance necessary for such due diligence, including allowing the access of the Buyer and / or its representatives into the Target Group during working hours, preparation of copies of the above information as well as communication with the related management of each Warrantor and each Group Company to further obtain information. Any investigation made by the Buyer and / or its representatives and any information obtained thereby may not be deemed as a waiver of any statement, guarantee or commitment as given or made by each Warrantor under the Agreement, or in any way affect the same.

## **8 The Warrantor's Other Commitments**

### **8.1 Tax Registration**

- (a) Each Warrantor shall, make filing, registration or reporting (if necessary) ("Tax Registration") with competent tax authorities for any transactions under the transaction documents in accordance with any applicable laws, or each Warrantor (except Forest, Matrix, Sequoia, and Qualcomm) shall ensure that each Group Company does the same, and provide the Buyer with written evidence as soon as possible.



- (b) Each Seller assumes and timely pays the tax occurred under the Transaction and the individual income tax on the Consideration for transfer of Domestic Equity will be withheld by the Buyer in accordance with applicable laws (where applicable).

## **8.2 No. 37 Document Change Registration**

Each Warrantor (except Forest, Matrix, Sequoia, and Qualcomm) shall cause all the domestic residents (as defined in No. 37 Document) who directly or indirectly hold the shares of each Overseas Company to present documents to the competent administration of foreign exchange within thirty days as of the date of the Agreement, so as to make change registration for their interests in each Overseas Company in accordance with No. 37 Document. After such change registration, all registrations and filings that are required in accordance with all applicable laws (including regulations issued by SAFE) shall be deemed as have been completed.

## **8.3 Assistance after the Closing**

The Sellers promise to do its utmost to assist, after the Closing Date, the Buyer and the Target Group in replying the question from any government department or conducting any programs with respect to any matter of the Target Group prior to the Closing Date.

## **8.4 Obligations after the Closing**

- (a) The Sellers (except Forest, Matrix, Sequoia, and Qualcomm) undertake that they will or will cause the relevant parties to complete the following matters within 10 days after the Closing Date:
- (i) provide the Buyer with Beijing Baina Information's business registration information sheet printed from the information system of the industrial and commercial registration department, proving that the Buyer or the designated person of the Buyer holds 60% equity of the Company and the authenticity and integrity of that information sheet shall be certified by the legal representative of Beijing Baina Information and accepted by the Buyer;
  - (ii) Beijing Baina Information completes the submission of necessary registration and filing with the competent departments with respect to the appointment of the legal representative according to Article 5.1(f).
- (b) The Sellers (except Forest, Matrix, Sequoia, and Qualcomm) promise to, within 10 business days after the Closing Date, cause the US Company to notify Yahoo of the change of the controlling right under the Transaction according to the requirements of their business contracts with Yahoo;
- (c) The Sellers (except Forest, Matrix, Sequoia, and Qualcomm) undertake that they will or will cause the relevant parties to complete the following matters within 1 month after the Closing Date:

- (i) complete the following matters relating to the lease of the house:
  - (A) the Domestic Companies complete the registration and filing for the lease of the house as required by all applicable laws;
  - (B) the Domestic Companies offer all house ownership certificates or other house ownership documents with respect to the house they leased, which are to the reasonable satisfaction of the Buyer;
  - (C) Beijing Baina Information has renewed its lease agreement to continue leasing South 2-1-7, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing, or other lease agreements to the satisfaction of the Buyer to lease an appropriate place for operation;
- (ii) Beijing Baina Information completes the change of its business license to add the “Internet Information Service” in its business scope;
- (iii) Chengdu Xingyu completes the transfer of its software the copyright of which is held by it to Baina Wuhan;
- (iv) The Japan Company gets the approval of IVP Fund II A LP and IVP Fund II B.L.P. (collectively as, the “IVP”) for the Overseas Transaction, and the confirmation from IVP that it will not require the Japan Company to repurchase the preferred stock it holds;
- (v) Each VIE Company completes necessary registration formalities with the industrial and commercial administrative department within the territory of China for the control protocol signed according to Article 5.1(ff);
- (vi) Exclusive intellectual property license agreement:
  - (A) Beijing Baina Zhiyuan respectively signs the related exclusive intellectual property license agreement with Beijing Baina and Wuhan Baina, in order to make that Beijing Baina Zhiyuan has a complete right to fulfil the business cooperation agreement it has signed;
  - (B) Wuhan Baina respectively signs the related exclusive intellectual property license agreement with Beijing Baina and Chengdu Xingyu, in order to make that Wuhan Baina has a complete right to fulfil the business cooperation agreement it has signed;
- (d) The Sellers (except Forest, Matrix, Sequoia, and Qualcomm) undertake that they will or will cause the relevant parties to complete the following matters within 2 months after the Closing Date:
  - (i) Tiefeng Liu fully repays the employee loan of RMB 139,938.39 and deposits the same into the company’s account;

- (ii) Yongzhi Yang fully repays the employee loan of RMB785,918.59 and deposits the same into the company's account;
  - (iii) Zhou Yu fully repays the employee loan of RMB 21,516.56 and deposits the same into the company's account;
  - (iv) Sen Li fully repays the employee loan of RMB 19,000.00 and deposits the same into the company's account;
- (e) The Sellers (except Forest, Matrix, Sequoia, and Qualcomm) undertake that they will or will cause the relevant parties to complete the following matters within 3 months after the Closing Date:
- (i) The HK Company and Muses have taken remedies (including any court proceedings) according to applicable laws to remedy its failure to held its annual meeting and prepare company accounts according to the applicable laws; the cost shall be borne by the Sellers and the results shall be to the satisfaction of the Buyer;
  - (ii) The HK Company and Muses have provided the Buyer with the accounts as of the establishment of the HK Company prepared by the auditors in accordance with applicable laws;
- (f) The Sellers (except Forest, Matrix, Sequoia, and Qualcomm) undertake that they will or will cause the relevant parties to complete the following matters within 6 months after the Closing Date:
- (i) cancel Andepurui and provide the Buyer with documentary proof satisfactory to the Buyer proving that such cancellation has been duly completed in accordance with applicable laws; and
  - (ii) transfer the controlling power of Muses to a bona fide third party.
- (g) The Sellers promise to complete the following matters within 10 days as of the date on which the Buyer makes the following requests about the US tax selection: (i) the Sellers shall agree and otherwise allow the Buyer to make (or cause to make) any tax selections according to Article 301.7701-3 of the Treasury Regulation to change each Group Company; such tax selection will take effect as of the day following the Closing Date or any day before the day following the Closing Date; (ii) the Sellers shall perform those tax selections (i.e., the execution of Form 8832 for each Group Company) as required by the Buyer; and (iii) unless otherwise specified by applicable laws, the Sellers shall agree to allow the Buyer to make (or procure to make) any tax selections in other ways to change any accounting methods of the taxation period before the Closing.
- (h) The Founder commits that, with respect to the payment obligations corresponding to the outstanding registered capital of Wuhan Baina to be paid by the Domestic Changyou ("Makeup Amount"), the Founder shall voluntarily, or procure each Group Company (Wuhan Baina excluded) to, prior to February 28, 2015, pay the Makeup Amount to the Domestic Changyou in a manner in compliance with applicable laws, so that the Domestic Changyou may use that capital to fulfil corresponding payment obligation against Wuhan Baina. For avoidance of doubt, the Founder or each Group Company (as the case may be) shall unconditionally exempt the Domestic Changyou from any liabilities for the Founder or each Group Company with respect to the Markup Amount.

## **9 Representations and Warranties**

### **9.1 Each Warrantor's Representations and Warranties**

- (a) Subject to the matters mentioned in the Disclosure Letter (if applicable) listed in Appendix V, the Warrantors (except Forest, Matrix, Sequoia, and Qualcomm) jointly and severally make statements, warranties and undertakings that during the Execution Date and the Closing Date,
- (i) other warranties, and disclosures, facts and information related to the Target Group contained in Part I of Appendix IV or the Agreement;
  - (ii) other warranties, and disclosures, facts and information related to the Sellers contained in Part I of Appendix IV or the Agreement;
- are true, accurate and complete and not misleading.
- (b) Forest, Matrix, Sequoia, and Qualcomm respectively make statements, warranties and undertakings to the Buyer that, during the Execution Date and the Closing Date, other warranties and disclosures, facts and information related to the Sellers contained in Part II of Appendix IV or the Agreement are true, accurate and complete and not misleading.

### **9.2 The Buyer's Representations and Warranties**

The Buyer hereby makes statements, warranties and undertakings to each Warrantor that, during the Execution Date and the Closing Date, other warranties and disclosures, facts and information related to the Buyer contained in Part III of Appendix IV or the Agreement are true, accurate and complete and not misleading.

## **10 Termination**

### **10.1 Termination of the Agreement**

- (a) At any time, under any of the following cases, the Agreement may be terminated, and the transactions contemplated hereunder may be abandoned:
- (i) The Buyer and the Sellers agree in writing; or
  - (ii) Where the Overseas Closing and the Domestic Closing do not take place simultaneously, by the way of written notification by the Buyer to the Sellers;
  - (iii) Where the Closing does not take place with 30 days as of the date of the Agreement, by the way of written notification by the Buyer to the Sellers;
- (b) In addition, if, at any time before the Closing, the following cases occur:

- (i) Each Warrantor fails to effectively complete, observe or perform its obligations, commitments or guarantees to be completed, observed or performed before the Closing Date, and such obligations, commitments or guarantees, after reasonable judgments, will not be able to be fulfilled before the Closing Date;
- (ii) The representations or warranties of each Warrantor under any transaction documents are, obviously will be untrue, inaccurate, incomplete or misleading, or become incorrect, inaccurate, incomplete, or misleading due to the occurrence of any events or circumstances;
- (iii) There are materially adverse effects;

Under any of the abovementioned cases, the Buyer is entitled to, after prudent decision at its own discretion and sending written notice to the Sellers, immediately terminate the Agreement and to abandon the transaction contemplated under the Agreement without bearing any responsibility. The Buyer's right to terminate the Agreement according to the abovementioned (i) to (iii) is an addition and independent. Any exercise of such rights shall not affect or reduce any other rights, relief or claims available to the Buyer on such notification date or constitute any waiver of such right, relief or claims.

## **10.2 Termination Effect**

Except for the circumstances specified in Article 10.3 below, if the Agreement is terminated according to Article 10.1 or applicable laws, the Agreement will no longer be valid, but the parties shall not be exempt from any liabilities arising from the breach hereof or any misstatements and such termination shall not be deemed as a waiver of any available relief for such breach or any untrue statement (including actual performance, if available).

## **10.3 Survival**

The provisions of the present Articles 9,10, 11, 12, and 13 shall survive the termination of the Agreement.

## **11 Indemnity**

### **11.1 Each Warrantor's Indemnity Obligations**

The Founder and the Sellers (except Forest, Matrix, Sequoia, and Qualcomm) agree individually and severally indemnify and hold harmless, the Buyer, its affiliates, the Target Group and their respective directors, officers, employees, and (in the case of permitted by applicable law) agents against all damages (including incidental damages and indirect damages), losses, debts, liabilities, costs and expenses (including investigation costs, attorneys' fees and the costs associated with any actions, suits or legal proceeding ) or value impairment ("Damage") (whether or not involving a claim by a third party) associated with the following cases:

- (a) Any violation of the commitments, representations and warranties made by each Warrantor under the Agreement (including the commitments made under Articles 7 and 8 and the representations and warranties made under Article 9 and Appendix IV;

- (b) claims whatsoever raised by any person questioning the validity of the transactions under the transaction documents or imposing or confirming limitations on the whole or any part of the transfer of the Target Equity, for reasons attributable to each Warrantor;
- (c) any liabilities of each Group Company on or before the Closing Date (except those as agreed by the transaction documents) (including any liability to pay potential tax, social insurance and housing fund, accounts payable or other liabilities);
- (d) defects in title to the house leased by the Domestic Companies;
- (e) failure of Chengdu Baina, Chengdu Xingyu and Hualian Chuangke for the industrial and commercial change registration procedures and / or corresponding change procedures to the approval certificate of their registered address; (for the avoidance of doubt, if the Buyer agrees to waive the Conditions Precedent in Article 5.1 (w), it will not cause prejudice to its rights to request compensation under this article)
- (f) the implementation of any collateral or other encumbrances on the assets of the Target Group that exist on or before the Closing Date;
- (g) the failure of each Group Company to, before the Closing Date, comply with any applicable laws (including Chinese and Hong Kong company laws, the relevant labour and social security laws and regulations of its jurisdiction, real estate management laws, any applicable laws to the borrowing, value-added tax invoices operation and application for government subsidies and any regulations applicable to its business or assets operation) (including the irregularities of the HK Company and Muses, etc. ), delay and / or failure to fully pay any fees payable;
- (h) invalidity, illegality and unenforceability of the management and economic control of former control protocol and any outstanding obligations, claims and rights of the parties thereto as at the Closing Date;
- (i) the invalidity, unenforceability or termination of any transaction documents in whole or in part for any reasons attributable to each Warrantor;
- (j) the failure of the Sellers to perform the related tax liabilities for any transactions (including disposal of the Target Equity) with the Target Group or related to the Target Group;
- (k) any non-recovery of accounts receivable reflected in the financial statements;
- (l) any claims within 90 days before or after the Closing Date arising from each Group Company's dismissal of any of its employees, or its acts or omissions against any of its employees before the Closing Date, including employees' claim for economic compensation involved in the termination of labour relationship;
- (m) the failure of any current or former owners of intellectual property to duly pay, before the Closing, to the creator and designer of such Intellectual Property the incentives, remuneration, or any other incentives or rewards that shall be paid to the related inventor, designer or creator as required by applicable laws;

- (n) If at any point after the Closing, the Buyer is recovered for the tax to be undertaken by each Warrantor by any domestic or overseas tax authorities;
- (o) any claims whatsoever as a result of any fact or condition existing prior to the Closing, and about the ownership or use of any intellectual property by the Target Group, including: any question of exclusive and unlimited ownership and right to use, or any claims for any rights whatsoever in the rights, interests or benefits or (2) alleged infringement upon any third party's intellectual property;
- (p) the Japan Company failed to obtain all the losses as approved by IVP on Overseas Transaction, including but not limited to the request against the Japan Company to repurchase the preferred shares it holds according to the agreements;
- (q) the management consulting agreement signed in violation of the Agreement or any other agreement (whether single or series of agreements) causing the company to bear more than US\$ 50,000; and
- (r) any claims filed by the counterparty or any third party as a result of the business contracts of Hualian Chuangke or Anzhuoxing.

### 11.2 Certain Overseas Seller's Indemnity Obligations

Forest, Matrix, Sequoia, and Qualcomm hereby agree to individually and severally indemnify and hold harmless, the Buyer, its affiliates, the Target Group and their respective directors, officers, employees, and (in the case of permitted by applicable law) agents against all damages (whether or not involving a claim by a third party) associated with the following cases:

- (a) any violation of the commitments, representations and warranties respectively made by Forest, Matrix, Sequoia or Qualcomm under the Agreement (including the commitments made under Articles 7 and 8 and the representations and warranties made under Article 9 and Appendix IV;
- (b) claims whatsoever raised by any person questioning the validity of the transactions under the transaction documents or imposing or confirming limitations on the whole or any part of the transfer of the Target Equity, for reasons attributable to Forest, Matrix, Sequoia or Qualcomm.

### 11.3 To be Informed

The right to compensation as provided hereunder shall not in any aspects be limited by any investigations (whether before or after the claims raised) conducted by any person, or any notice sent by the Buyer or any persons' decision of closing. Without prejudice to the generality of the foregoing provisions, the rights to get compensated under Articles 11.1 and 11.2 may not be limited in any way by any disclosure made by each Warrantor (whether on or before or after the Execution Date).

#### 11.4 Other Remedies

The Parties acknowledge and agree that Indemnity provisions stipulated Article 11 and any other rights and remedies available to the Parties in law or of equity can coexist.

The maximum compensation obligations and liabilities of the Founder, the Sellers, and each Warrantor mentioned in Article 11 shall not exceed the Consideration mentioned in Appendix I hereof that is obtained according to the Agreement.

### 12 Confidentiality

#### 12.1 Confidentiality

- (a) Each party to the Agreement shall strictly keep confidential the information contained in the Agreement or any information obtained or secured by negotiation and / or entry into the Agreement, including any information relating to the following matters and shall not disclose or use:
- (i) the existence and terms of the Agreement;
  - (ii) negotiations related with the Agreement; or
  - (iii) any business activities conducted by a Party to the Agreement, such party or any of its affiliates.
- (b) However, under the following cases, this Article 12.1 shall not prohibit the disclosure or use of any information within the following ranges:
- (i) any disclosure or use as required by the applicable laws, any rules of any stock exchanges on which the shares of each party were listed or any government; but before such disclosure or use of information, the relevant party shall promptly notify the other parties of such requirements to provide other parties with the opportunities to oppose such disclosure or use, or may negotiate such disclosure or use time and contents;
  - (ii) the disclosure or use required by any legal proceedings as a result of the Agreement or any other agreements entered into hereunder or pursuant to the Agreement or the disclosure that is related to the tax affairs of the disclosing party and made to the tax authorities;
  - (iii) any disclosure made to any party's officers, directors, employees, attorneys, accountants, financial advisers and other agents or representatives ("representative") who need know such information for any purpose of the Agreement or the completion of the transaction contemplated under the agreement entered into according to the Agreement; provided, however, such representatives undertake to abide by Article 12.1 (a) with respect to such information as if it is a party to the Agreement;
  - (iv) such information can be obtained from public sources (unless that the case is due to any violation of the confidentiality agreements (if any) or the Agreement) ; or



- (v) Other parties previously consent in writing to the disclosure or use.

## 12.2 Public Statements

The Parties agree to negotiate with other parties before any press release or make any public statements with respect to the Agreement or the transaction contemplated hereunder, and the Parties will not make any press release or any public statements before that negotiation, except for any press releases or public statements required by any applicable laws or the rules of the stock exchanges on which the shares of any party are listed.

## 13 General

### 13.1 Cost Sharing

- (a) Subject to Article 13.1 (b), the Parties shall bear their own expenses related to the transaction under the transaction documents, occurred or to occur, including taxes and fees for appointing legal counsels, accountants, appraisers and other professional advisors.
- (b) If the Buyer completes due diligence on all aspects of the Target Group (including business, technical, financial and legal affairs) and other due diligences to the satisfaction of the Buyer; however, if the transaction hereunder does not take place attributable to the reasons of the Buyer without any force majeure, the Buyer shall bear the expenses of the Overseas Sellers under Article 13.1 (a) to the extent of US\$ 50,000.

### 13.2 Binding Force; Transfer

The Agreement shall be binding upon and enforceable against the Parties, their successors and permitted assigns. Without the prior written approval of the other parties, the Parties may not transfer any of its rights or obligations under the Agreement, but the Buyer has the right, without the prior consent of the other parties, to transfer all or part of its rights under the Agreement to any of its affiliates.

### 13.3 Governing Laws

The Agreement shall be governed by and construed in accordance with the laws of Hong Kong.

### 13.4 Dispute Resolution

- (a) Any dispute, controversy or request arising from or relating to the Agreement or the interpretation, breach, termination or validity hereof (each, a “dispute”) shall be firstly resolved by the Parties through consultations. Negotiations shall begin immediately after the written notice requiring negotiations is sent by any party to any other parties.
- (b) If the dispute fails to be resolved within sixty (60) days as of the notice, the dispute shall be submitted to arbitration after any party involved in the dispute sends notice (“notice of arbitration”) to other parties for arbitration.
- (c) The dispute shall be submitted to the Hong Kong International Arbitration Centre (“HKIAC”) for arbitration in Hong Kong. There shall be three (3) arbitrators appointed in accordance with the HKIAC arbitration rules then in effect (“Arbitration Rules”), unless otherwise expressly provided in this Article 12.4(c). The Buyer shall appoint one arbitrator; each Warrantor shall jointly appoint an arbitrator within ten (10) days after the Buyer has appointed an arbitrator; if an arbitrator cannot be designated under the abovementioned conditions, the arbitrator shall be designated by HKIAC; the third arbitrator shall be the presiding arbitrator and shall be jointly appointed by the arbitrators of the parties within ten (10) days after the latter arbitrator is appointed. If it is cannot be appointed under the above conditions, the arbitrator shall be specified by HKIAC.

- (d) The arbitration procedures shall be conducted in Chinese. The arbitral tribunal shall apply the arbitration rules.
- (e) The awards of the arbitral tribunal are final and binding upon the Parties; the prevailing party may apply to a court of competent jurisdiction for enforcing the award.
- (f) Any party to the dispute shall have the right, if feasible, to seek a temporary injunction relief in any court having jurisdiction.
- (g) In the course of ruling the dispute by the arbitral tribunal, except the part in dispute to be ruled, the Agreement shall continue being performed.
- (h) Costs of arbitration (including any legal, accounting and other professional fees and expenses arising from the investigation, collection, prosecution and / or defence by the prevailing party for any request under the dispute) shall be borne by the losing party in accordance with the ruling of the arbitration tribunal.

### **13.5 Alteration**

Except as otherwise permitted in the Agreement, any modification, alteration, waiver, cancellation or termination of the Agreement and its terms shall be made with a written document signed by each party.

### **13.6 Notice**

- (a) all notices, claims, certificates, requests, demands and other communications sent to any party hereunder shall be made in writing and sent by personal delivery, facsimile or postage-prepaid form by reputable overnight courier service to the address or any other addresses that are listed in the following Article 13.6 (b) of the party and specified by the party to all other parties through notice. The abovementioned notices shall be deemed as served upon delivery in the case of personal delivery and upon the receipt of return in the case of sending by fax. In the event of overnight courier service, the notices shall be considered as been delivered within five (5) calendar days as of the post to the express company or collected by the express company.
- (b) The notices hereunder shall be sent to the addresses of the Parties listed in Appendix VII.

### **13.7 Further Assurance**

Each Party shall make and perform (or cause others to make and perform) all further acts and matters as may reasonably required by any other parties to achieve the terms and the purpose hereof, and shall sign and deliver to any other parties all other agreements, certificates, instruments and documents to achieve the terms and the purpose hereof.

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**13.8 Entire Agreement**

The Agreement, together with other transaction documents, constitutes the entire agreement between the parties regarding the subject matter of the Agreement and supersedes all prior written or oral understandings or agreements.

**13.9 Severability**

If any provision of the Agreement is held invalid or unenforceable to any extent, the remainder of the Agreement shall not be affected and shall be enforceable to the maximum extent permitted by laws. Any invalid or unenforceable provisions hereof shall be replaced by other valid and enforceable terms with the closest effect to the original intent of such unenforceable ones.

**13.10 Cumulative Relief**

The rights and remedies available herein or in other ways should be cumulative with all other rights and remedies and may be exercised in succession.

**13.11 Execution**

The Agreement may be made in one or more copies and each copy is deemed original. All copies constitute the same instrument.

## Investment Agreement

### Appendix I - Overseas Shares and Domestic Equity

<b>The Seller</b>	<b>Shares / Equity</b>	<b>Number of Shares / Equity</b>	<b>Consideration</b>
Baina	Ordinary Shares of the Cayman Company	54,096,906	US\$ 31,384,375
Forest	Ordinary Shares of the Cayman Company	5,425,000	US\$ 3,354,394
Matrix	Ordinary shares of the Cayman Company	7,875,000	US\$ 5,034,237
	Series A Preferred Shares of the Cayman Company	12,500,000	US\$ 7,990,853
Sequoia	Series A Preferred Shares of the Cayman Company	50,000,000	US\$ 31,963,410
Qualcomm	Series A-1 Preferred Shares of the Cayman Company	8,118,560	US\$ 7,689,937
Yongzhi Yang	Ordinary Shares of Beijing Baina Information	20%	RMB 2,000,000
Tiefeng Liu	Ordinary Shares of Beijing Baina Information	15%	RMB 1,500,000
Youyang Xie	Ordinary Shares of Beijing Baina Information	7%	RMB 700,000
Na Zeng	Ordinary Shares of Beijing Baina Information	8%	RMB 800,000
Zhou Yu	Ordinary Shares of Beijing Baina Information	5%	RMB 500,000
Sen Li	Ordinary Shares of Beijing Baina Information	5%	RMB 500,000
Yongzhi Yang	Ordinary Shares of Baina Wuhan	50%	RMB 12,500,000
Zhou Yu	Ordinary Shares of Baina Wuhan	5%	RMB 1,250,000
Sen Li	Ordinary Shares of Baina Wuhan	5%	RMB 1,250,000

## Appendix II—Particulars of the Target Group

### Part I The Cayman Company

**Company Name:** : MoboTap Inc.  
**Founded on** : April 14, 2011

**Place of** : Cayman Islands

**Registration:**

**Company No.:** : CF254908

**Registered** : PO Box 613 GT, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands

**Address:**

**Company Type:** : Private company limited

**Existing Directors** : Yongzhi Yang

Tiefeng Liu

Na Zeng

Kui Zhou

**Company** : CIA Asia Corporate Services Limited

**Secretary:**

**Issued Share** : 260,618,560 shares (including 190,000,000 Ordinary Shares, 62,500,000 Series A Preferred Shares and 8,118,560 Series A-1  
**Capital** Preferred Shares)

Shareholders	Shareholders	Class of Shares	Shareholding (on a fully converted basis)	
			Number of Shares Held	
	Baina	Ordinary Shares	176,700,000	67.8%
	Forest	Ordinary Shares	5,425,000	2.08%
	Matrix	Ordinary Shares	7,875,000	3.02%
		Series A Preferred Shares	12,500,000	4.80%
	Sequoia	Series A Preferred Shares	50,000,000	19.19%
	Qualcomm	Series A-1 Preferred Shares	8,118,560	3.11%
	Total		260,618,560	100%

Investment Agreement

**Part II Other Overseas Companies other than the Cayman Company**

**1. HK Company**

**Company Name:** : MoboTap Inc. Limited  
**Founded on** : May 5, 2011

**Place of Registration:** : Hong Kong  
**Company No.:** : 1596431  
**Registered Address:** : Room C, 21 / F, CMA Building, No. 64 Connaught Road, Central, Hong Kong

**Company Type:** : Private company limited  
**Existing Director** : Tiefeng Liu  
**Company Secretary:** : CIA Asia Holdings Limited  
**Issued Share Capital** : 1 share  
**Shareholder** : MoboTap Inc. 1 share

**2. Muse**

**Company Name:** : Muse Entertainment Limited  
**Founded on** : June 6, 2012

**Place of Registration:** : Hong Kong  
**Company No.:** : 1756288  
**Registered Address:** : Room C, 21 / F, CMA Building, No. 64 Connaught Road, Central, Hong Kong

**Company Type:** : Private company limited  
**Existing Director** : Zhou Yu  
**Company Secretary:** : CIA Asia Holdings Limited  
**Issued Share Capital** : 1 share  
**Shareholder** : MoboTap Inc. 1 share

### 3. Dstore

**Company Name:** : Dstore Technology Limited  
**Founded on** : December 27, 2013

**Place of Registration:** : Hong Kong  
**Company No.:** : 2017908  
**Registered Address:** : Flat E5, 9 / F Block E Wah Lok Ind Ctr (Phase II), Nos 31-35 Shan Mei Street, Fo Tan, Shatin, New Territories, Hong Kong

**Company Type:** : Private company limited  
**Existing Director** : Zhou Yu  
**Company Secretary:** : D & C Consultancy Services Limited  
**Issued Share Capital** : 7,000,000 shares (including 5,500,000 Class A Shares and 1,500,000 Class B Shares)

<b>Shareholders</b>	<u>Shareholders</u>	<u>Class of Shares</u>	<u>Number of Shares Held</u>
	MoboTap Inc.	Class A Shares	5,500,000
	Chan, Joe Cho Lit	Class B Shares	1,000,000
	EmMonster Inc.	Class B Shares	150,000
	HaiNa Investment Limited	Class B Shares	150,000
	Lu Jian Feng	Class B Shares	200,000
	Total		7,000,000

### 4. Japan Company

**Company Name:** : Dolphin Browser Inc.  
**Founded on** : August 8, 2012  
**Place of Registration:** : Japan  
**Company No.:** : 011001091188  
**Registered Address:** : 4-3-17 Toranomon, Shinjuku, Tokyo Shinjuku

**Company Type:** : Kabushiki Kaisha (Ltd.)  
**Existing Directors** : Masaaki Suga  
Yongzhi Yang  
Harry Man

**Issued Share Capital** : 100,000 shares

**Shareholders** : MotoTap Inc.  
IVP Fund II A, L.P.  
IVP Fund II B, L.P.

## 5. US Company

**Company Name:** : MoboTap Inc.  
**Founded on** : August 10, 2010 (AppMesh Inc. when established)  
**Renamed on** : March 2, 2011 (renamed as MoboTap Inc.)  
**Place of** : Delaware, the United States  
**Registration:**  
**Company No.:** : 4858587  
**Registered** : Delaware Corporations LLC, 800 Delaware Ave., City of Wilmington, County of New Castle, Delaware 19801  
**Address:**  
**Company Type:** : C Corporation  
**Existing Directors** : Yongzhi Yang  
Tiefeng Liu  
Na Zeng  
**Issued Share** : One (1) share, no par value  
**Capital**  
**Shareholder** : MoboTap Inc.



## Part III The Domestic Companies

### 1. Chengdu Baina

**Company Name:** : Baina Zhiyuan (Chengdu) Technology Co. Ltd.  
**Founded on** : June 28, 2012

**Place of Registration:** : China  
**Company No.:** : 510100400043032  
**Registered Address:** : Room 102-112, 1/F, Building No.1, Zone A, Tianfu Software Park, No.765 Middle Tianfu Avenue, Chengdu Hi-tech Zone, Sichuan

**Company Type:** : Limited liability company (wholly invested by Hong Kong, Macao and Taiwan legal person)

**Legal representative:** : Tiefeng Liu

**Director:** : Tiefeng Liu

**Supervisor** : Zhou Yu

**Registered Capital** : US\$ 1,500,000  
**Paid-up Capital** : US\$ 1,500,000  
**Shareholder** : MoboTap Inc. Limited (100%)

### 2. Beijing Baina Zhiyuan

**Company Name:** : Baina Zhiyuan (Beijing) Technology Co. Ltd.  
**Founded on** : September 9, 2011

**Place of Registration:** : China  
**Company No.:** : 110000450183446  
**Registered Address:** : South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing

**Company Type:** : Limited liability company (wholly invested by Hong Kong, Macao and Taiwan legal person)

**Legal representative:** : Tiefeng Liu

**Director:** : Tiefeng Liu

**Supervisor** : Zhou Yu

**Registered Capital** : US\$ 6,000,000  
**Paid-up Capital** : US\$ 6,000,000  
**Shareholder** : MoboTap Inc. Limited (100%)

### 3. Beijing Baina Information

**Company Name:** Beijing Baina Information Technology Co., Ltd.  
**Founded on:** March 19, 2010  
**Place of Registration:** China  
**Company No.:** 110108012702434  
**Registered Address:** South 2-1-7, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing

**Company Type:** Limited liability company (invested or held by natural persons)  
**Legal representative:** Tiefeng Liu

**Director:** Tiefeng Liu

**Supervisor:** Zhou Yu

**Registered Capital:** RMB 10,000,000

**Paid-up Capital:** RMB 10,000,000

Shareholders	Shareholders	Contribution	Shareholding
		(RMB)	Ratio
	Yongzhi Yang	6,000,000	60%
	Tiefeng Liu	1,500,000	15%
	Na Zeng	800,000	8%
	Youyang Xie	700,000	7%
	Zhou Yu	500,000	5%
	Sen Li	500,000	5%
	Total	10,000,000	100%

### 4. Wuhan Baina

**Company Name:** Baina (Wuhan) Information Technology Co., Ltd.

**Name:**

**Founded on:** July 5, 2010

**Place of**

**Registration:** China

**Company No.:** 420100000199726

**Registered Address:** : 3/F, Building A2, Phase 1 Jinronggang, No.77 Optical Valley Avenue, Donghu Development Zone, Wuhan  
**Company Type:** : Limited liability company  
**Legal representative:** : Tiefeng Liu

**Director:** : Tiefeng Liu

**Supervisor** : Zhou Yu

**Registered Capital** : RMB 20,000,000

**Paid-up Capital** : RMB 15,000,000

<b>Shareholders</b>		<u>Contribution (RMB)</u>	<u>Shareholding Ratio</u>
	Yongzhi Yang	18,000,000	90%
	Zhou Yu	1,000,000	5%
	Sen Li	1,000,000	5%
	Total	20,000,000	100%

## 5. Chengdu Xingyu

**Company Name:** : Chengdu Xingyu Science and Technology Co., Ltd.

**Founded on** : December 19, 2012

**Place of Registration:** : China

**Company No.:** : 510109000353845

**Registered Address:** : No.39, 6/F, Unit 2, Building 1, No.222 Tianren Road, Hi-tech Zone, Chengdu

**Company Type:** : Limited liability company (wholly invested by foreign-fund enterprise legal person)

**Legal representative:** : Zhou Yu

**Director:** : Zhou Yu

**Supervisor** : Yongbo Yang

**Registered Capital** : RMB 1,000,000

**Paid-up Capital** : RMB 1,000,000

**Shareholders** : Baina Zhiyuan (Chengdu) Technology (100%)

## 6. Wuhan Xingyu

**Company Name:** : Wuhan Xingyu Science and Technology Co., Ltd.  
**Founded on** : November 25, 2013

**Place of Registration:** : China  
**Company No.:** : 420100000376093  
**Registered Address:** : Room 2, 5/F, Building 1, Phase 3 Guannan Fuxing Medicine Park, No.58 Optical Valley Avenue, Donghu New Development Zone, Wuhan

**Company Type:** : Limited liability company (sole proprietorship by legal person)

**Legal representative:** : Chaodong Wu

**Director:** : Chaodong Wu

**Supervisor** : Jin Huang

**Registered Capital** : RMB 100,000  
**Paid-up Capital** : RMB 100,000  
**Shareholder** : Wuhan Baina (100%)

## 7. Hualian Chuangke

**Company Name:** : Wuhan Hualian Chuangke Science and Technology Co., Ltd.  
**Founded on** : December 23, 2008

**Place of Registration:** : China  
**Company No.:** : 420100000123236  
**Registered Address:** : Room 401, Block A, 3 # Building, SBI Venture Street, Dongxin Road, East Lake Development Zone, Wuhan

**Company Type:** : Limited liability company  
**Legal representative:** : Qiangbing Wang

**Director:** : Qiangbing Wang

**Supervisor** : Qi Chen

**Registered Capital** : RMB 1,000,000  
**Paid-up Capital** : RMB 1,000,000  
**Shareholder** : Baina (Wuhan) Information Technology Co., Ltd. (100%)

## 8. Anzhuoxing

**Company Name:** : Beijing Anzhuoxing Science and Technology Co., Ltd.  
**Founded on** : July 24, 2007

**Place of Registration** : China

**Company No.** : 1101080100360883  
**Registered address** : Room 4037, Huaqingyuan Hotel 1A, 1B and 1C, Building 3, Huaqingjia Park, Dongsheng Zone, Wudaokou, Haidian District, Beijing

**Company Type** : Limited liability company  
**Legal representative** : Qiangbing Wang

**Director** : Qiangbing Wang

**Supervisor** : Yongbo Yang

**Registered Capital** : RMB 100,000  
**Paid-up Capital** : RMB 100,000  
**Shareholder** : Baina (Wuhan) Information Technology Co., Ltd. (100%)

## 9. Andepurui

**Company Name** : Shanghai Andepurui Network Science and Technology Co., Ltd.  
**Founded on** : January 8, 2013

**Place of Registration** : China

**Company No.** : 310115002064099  
**Registered Address** : Room 112, Building 2, No.700 Shangfeng Road, Pudong New Area, Shanghai

**Company Type** : Limited liability company (invested or held by natural persons)  
**Legal representative** : Qiangbing Wang

**Director** : Qiangbing Wang

**Supervisor** : Yongbo Yang

**Registered Capital** : RMB 100,000  
**Paid-up Capital** : RMB 100,000

<b>Shareholders</b>		<u>Contribution (RMB)</u>	<u>Shareholding Ratio</u>
	Shareholders		
	Qiangbing Wang	40,000	40%
	Yongbo Yang	60,000	60%
	Total	100,000	100%

### Appendix III - Definitions

No. 37 Document refers to Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (Hui Fa [2014] No.37) issued by the State Administration of Foreign Exchange on July 4, 2014 and its supplements, rules and modifications from time to time.

Andepurui has the meaning ascribed in the preamble of the Agreement.

Anzhuoxing has the meaning ascribed in the preamble of the Agreement.

Baina refers to Baina Inc., with its communications being set out in Appendix VII.

The Warrantors and each Warrantor have the meanings ascribed in the preamble of the Agreement.

The Warrantor's warranties refer to the representations and warranties contained in Part I of Appendix IV.

Beijing Baina Sellers have the meaning ascribed in the preamble of the Agreement.

Beijing Baina Information has the meaning ascribed in the preamble of the Agreement.

Beijing Baina Zhiyuan has the meaning ascribed in the preamble of the Agreement.

The Agreement has the meaning ascribed in the preamble of the Agreement.

Financial statements refer to the unaudited financial statements of the Target Group for 2011 fiscal year, 2012 fiscal year, and 2013 fiscal year and that ended as at the date of the financial statements that are provided by the Sellers to the Buyer.

Date of the financial statements refers to April 30, 2014.

Encumbrances refer to the mortgage, charge (fixed or floating), restraining order, balancing, guarantee, pledge, lien (whether statutory or not), right of first refusal, options, claims, ownership retention, priority, security interest or any third party rights, or other encumbrances of any kind on any property or those with respect thereto.

Chengdu Baina has the meaning ascribed in the preamble of the Agreement.

Chengdu Xingyu has the meaning ascribed in the preamble of the Agreement.

The Founder has the meaning ascribed in the preamble of the Agreement.

Personal Guarantee Deed of the Founder refers to the guarantee deed signed by the Founder for providing guarantees for the obligations of the Founder, Baina and each Group Company and the obligations of the Cayman Company to fulfill its Convertible Bonds obligation and takes effect as of the Closing Date.

Representatives have the meaning ascribed in Article 12.1 (b) (iii).

Domains to be Transferred has the meaning ascribed in Article 5.1(t).

Dolphin Browser refers to the smart phone's browser Dolphin Browser developed and operated by the Target Group.

Dstore refers to Dstore Technology Limited.

Consideration has the meaning ascribed in Article 4.

Forest refers to Forest Group Investments Limited, with its communications being set out in Appendix VII.

The Parties or each Party have the meaning ascribed in the preamble of the Agreement.

The Articles of Association of Each Group Company have the meaning ascribed in Article 5.1(e).

Shareholder's Agreement refers to the shareholder's agreement signed by and among the Buyer, the Founder, the relevant group companies and Baina with respect to the group company (the content must be satisfactory to the Buyer), that takes effect as of the Closing Date.

Equity Mortgage Deed refers to a guarantee provided by Baina with effect as of the Closing Date, under which it pledges 9% equity in Cayman Company to guarantee that its founder performs the obligations under this transaction and the Cayman Company fulfills the convertible bonds obligations (the contents shall be satisfactory to the Buyer).

Affiliates, with respect to any subject, refer to (i) if it is a natural person, the spouse and immediate family members (whether natural affinity or adoptive relationship) of such persons and the established and existing trusts for such persons, or their spouse, parents or children; (ii) if it is a legal entity, unincorporated organization, institution, or other forms of entities, any party directly controlling or indirectly controlling that subject through one or more intermediaries, or any party directly controlled or indirectly controlled through one or more intermediaries, or any party directly or indirectly controlled by a party with the subject.

"Control" refers to: (i) a body directly or indirectly owns more than 50% voting shares, the registered capital or other equity interests, either by owning securities, by contract or otherwise exercised; or (ii) has the power to appoint the majority of members of the management, board of directors or similar decision-making bodies.

HKIAC has the meaning ascribed in Article 13.4(c).

Qualified Listing refers to the Cayman Company or its affiliates' IPO and listing in the United States or Hong Kong.

Contract refers to any written or oral agreements, arrangements, contracts, commitments, licenses, compensation, deeds, instruments, leases, permits or binding understandings.

Hualian Chuangke has the meaning ascribed in the preamble of the Agreement.

Environmental, Health and Safety Requirements refer to all applicable laws related to public health and safety, worker's health and safety, and environmental pollution or protection, including all applicable laws with respect to the existence, use, manufacturing, production, handling, transportation, treatment, storage, disposal, distribution, marking, testing, processing, discharge, release or likely release, control, or removal of any hazardous materials, wastes, noises or radiation.

IVP has the meaning ascribed in Article 8.4(c)(iv).

The Closing Date has the meaning ascribed in Article 6.1.

Transaction Documents refer to the Agreement, the Shareholders' Agreement, the Subscription Agreement, the Control Protocol, the Non-competition Agreement and the Priority Investment Agreement, Equity Mortgage Deed, Personal Guarantee Deed of the Founder and other documents to be made based on the abovementioned documents or other documents relating thereto.

Licensed Intellectual Property has the meaning ascribed in Article 17.3, Part I of Appendix IV.

The Non-competition Agreement and Priority Investment Agreement refers to those, the contents of which shall be to the satisfaction of the Buyer signed by and among Key Employees and the related group companies.

Domestic Sellers and each Domestic Seller have the meaning ascribed in the preamble of the Agreement.

Domestic Companies and each Domestic Company have the meaning ascribed in the preamble of the Agreement.

Domestic Transaction has the meaning ascribed in Article (B) of the recitals hereof.

Domestic Equity has the meaning ascribed in Article (B) of the recitals hereof.

Domestic Changyou has the meaning ascribed in the preamble of the Agreement.

Overseas Changyou has the meaning ascribed in the preamble of the Agreement.

Overseas Transaction has the meaning ascribed in Article (A) of the recitals hereof.

Overseas Sellers and each Overseas Seller have the meaning ascribed in the preamble of the Agreement.

Overseas Companies and each Overseas Company have the meaning ascribed in the preamble of the Agreement.



Overseas Share has the meaning ascribed in Article (A) of the recitals hereof.

Cayman Company has the meaning ascribed in the preamble of the Agreement.

Convertible Bonds have the meaning ascribed in Article (C) of the recitals hereof.

Control Protocol refers to the control protocol re-signed by and among Beijing Baina Zhiyuan and the VIE company and its shareholders (contents shall be satisfactory to the Buyer).

Execution Date has the meaning ascribed in the preamble of the Agreement.

The Buyer or Changyou has the meaning ascribed in the preamble of the Agreement.

The Buyer's warranties refer to the representations and warranties contained in Part II of Appendix IV.

The Sellers and each Seller have the meaning ascribed in the preamble of the Agreement.

The Sellers' warranties refer to the representations and warranties contained in Part II of Appendix IV.

Matrix refers to Matrix Partners China II Hong Kong Limited, with its communications being set out in Appendix VII.

The US Company has the meaning ascribed in the preamble of the Agreement.

Target Equity has the meaning ascribed in Article (B) of the recitals hereof.

The Target Group and each Group Company have the meaning ascribed in the preamble of the Agreement.

Muses refers to Muses Entertainment Limited.

Qualcomm refers to QUALCOMM Incorporated, with its communications being set out in Appendix VII.

The Subscription Agreement refers to the agreement on subscription for convertible bonds by and among the Buyer and the Cayman Company (contents shall be satisfactory to the Buyer).

The Japan Company has the meaning ascribed in the preamble of the Agreement.

Sequoia refers to Sequoia Capital 2010 CV Holdco, Ltd., with its communications being set out in Appendix VII.

Applicable laws refer to, with respect to any person, any constitution, treaties, statutes, laws, regulations, rules, guidelines, regulations, judgments, orders, decrees, rulings, injunctions, government approvals, verifications, grants, licenses, permits, agreements, directives, requirements or restrictions or any decisions of similar form made by government departments applicable to such persons on or after the Execution Date of the Agreement and those applicable to such persons after each revisions, or identification made thereby, or any and all provisions on the interpretation or implementation of any content of any of the foregoing.

Taxes refer to any national, provincial, municipal or local income, sales and use, exercise, franchise, real estate and property, gross income, equity, production, business and occupation, transfer, registration, profits, resources, licensing, documents, disability, employment, wages, severance pay and withholding taxes or other types of taxes, levying, allocation or charges imposed by any government department, and any loss or tax liabilities arising from any ruling, settlement or litigation related to any liabilities.

Tax Registration has the meaning ascribed in Article 8.1(a).

Social Insurance Benefits refer to any required by applicable law, social insurance, pension benefits, health insurance benefits, work-related injury insurance, maternity insurance benefits, unemployment insurance benefits and housing fund welfare as required by any applicable laws or any similar payment arrangements.

Damages have the meaning ascribed in Article 11.1.

Demands refer to any claims or actions, litigation, arbitration, inquiry, judicial, administrative or other proceedings or investigations filed by or against any person or by any government department.

VIE company has the meaning ascribed in the preamble of the Agreement.

SAFE refers to the State Administration of Foreign Exchange and its branches.

Wuhan Baina has the meaning ascribed in the preamble of the Agreement.

Wuhan Xingyu has the meaning ascribed in the preamble of the Agreement.

Hong Kong refers to Hong Kong Special Administrative Region of China.

HK Company has the meaning ascribed in the preamble of the Agreement.

IT refers to computer and other IT systems and equipment, including hardware, software and networks and other communication systems.

Licenses refer to any approvals, licenses, exemptions, approvals, filings, registrations, notices or other authorizations.

Original Control Protocol refers to a series of framework contracts signed by and between Beijing Baina Zhiyuan and the VIE company prior to the Execution Date, including the following contracts:

- (a) Exclusive Business Cooperation Agreement, Exclusive Option Agreement, Share Pledge Agreement, Shareholders Voting Proxy Agreement and irrevocable Power of Attorney signed by and among Beijing Baina Zhiyuan and Beijing Baina Information and its shareholders on September 21, 2011; and
- (b) Exclusive Business Cooperation Agreement signed by and among Beijing Baina Zhiyuan and Wuhan Baina and its shareholders on January 22, 2013, Exclusive Option Agreement, Shareholders Voting Proxy Agreement and irrevocable Power of Attorney on March 29, 2013 and Share Pledge Agreement on May 21, 2014.

Employee Option Plan has the meaning ascribed in the Shareholder's Agreement.

Dispute has the meaning ascribed in Article 13.4(a).

Securities have the meaning ascribed in Article 2.2, Part I of Appendix IV.

Governmental Departments refer to any government or any agency, bureau, councils, committees, courts, departments, and any governmental officials, administrative divisions or courts, or any political party or its departments or divisions exercising any power or authority normally exercised by a government agency.

Governmental officials refer to any officers or employees of certain governmental department (for such purposes, including any entity or enterprise owned or controlled by government), any person exercising official functions for or on behalf of any such government department, any officials of any party or any candidates of any senior positions of any party.

Intellectual Property Rights refer to all of the following ones worldwide (i) trademarks, service marks, brand names, certification marks, collective marks, Internet domains, marks, logos, product appearance, pseudonyms, virtual names, trade names, and representations of other places of origin, the aforementioned application and registration, and the goodwill associated thereto and it represents, including all renewals of the aforementioned items;(ii) proprietary inventions and discoveries, regardless of the ability to obtain patents, as well as all of its patents, registrations, invention disclosure and application, including divisions, continuation, partial continuation and renewal applications, and including renewals, extensions and re-issuance;(iii) confidential information, trade secrets and proprietary technology, including process, systematic portfolios, business methods, formulas, drawings, prototypes, models, designs, customer lists and list of suppliers;(iv) the works published and unpublished, regardless of whether the copyright (including databases and other combinations of information) can be secured, copyright, registration and application of the preceding items, as well as all of its renewal, extension, recovery and adaptation; and(v) any other intellectual properties or proprietary rights.

China refers to the People's Republic of China, excluding Hong Kong SAR, Macao SAR and Taiwan Region only for the purposes of the Agreement.

Material Adverse Effect refers to any events, things, circumstances, changes or developments cause or may reasonably be expected to cause material adverse effects, which specifically refer to the following three cases:(i) on the part of the Buyer, if such a violation, situation, change, influence, or other cases makes the Buyer cannot fulfill its obligations under the Agreement and other transaction documents or cause it cannot complete the transactions contemplated under the Agreement and other transaction documents;(ii) on the part of each Warrantor, if such a violation, situation, change, influence, or other cases makes each Warrantor cannot fulfill its obligations under the Agreement (including the steps for preparing restructuring plan) and other transaction documents or cause it cannot complete the transactions contemplated under the Agreement and other transaction documents;(iii) on the part of each Group Company, if such a violation, situation, change, or other circumstances individually or cumulatively causes material adverse effects on the financial or other positions, business, assets, results of operations and prospects of each Group Company.

Arbitration Rules have the meaning ascribed in Article 13.4(c).

Notice of Arbitration has the meaning ascribed in Article 13.4(b).

Self-owned Intellectual Property has the meaning ascribed in Article 17.2, Part I of Appendix IV.

Appendix IV—Representations and Warranties

Part I The Target Group’s Warranties

**1 Establishment, qualification and authorization**

- 1.1 All Group Companies are: (1) limited companies legally registered and validly existing under the laws of their registered places with good standing; (2) have all the necessary power and authority to own and operate their property and conduct business; (3) have proper qualifications for business transactions, all licenses and qualifications required for operations of such business, and good standing in each jurisdiction requiring such qualifications; and (4) since their establishment, have always conducted their business in compliance with applicable laws.
- 1.2 Each Group Company has taken all necessary actions to enable it to authorize, execute and deliver the Agreement and to perform its obligations under the Agreement. The Agreement and any other agreements and / or instruments binding a Group Company in accordance with the terms of the Agreement constitute a valid and legally binding obligation for the Group Companies and are enforceable according to their terms.
- 1.3 Each Group Company’s signing, delivery or performance of the Agreement or completion of the transaction contemplated under the Agreement is not required to obtain any consent from any person other than the consents obtained on the Closing Date.

**2 Share capital of the Group Companies**

- 2.1 The corporate information of the Group Companies listed in Appendix II (including share information) is true, complete and accurate. In addition to the equity pledge created by former Control Protocol or transaction documents, the shareholders of the Group Companies are the rightful owners of equity listed in Appendix II without any encumbrances, and bear no statutory or contractual obligations to further invest in the Group Companies.
- 2.2 Except for the shares information and former Control Protocol listed in Appendix II or the share options created by transaction documents, on the part of various Group Companies, there are no outstanding (i) equity, share capital or voting securities
- (ii) securities that can be converted to or be replaced for equity, equity share or voting securities;
- (iii) options, warrants or other rights (including conversion rights or pre-emptive rights and the right of first refusal) to purchase from each Warrantor or each Group Company or make each Group Company be obliged to issue any equity, equity share or voting securities or securities that can be converted to or replaced by equity, equity share or voting securities (the above (i), (ii) and (iii), collectively referred to as the “Securities”).

Each Group Company has no outstanding obligations to repurchase, redeem or otherwise purchase any securities.

- 2.3 There are no proceedings, pending or threatened, affecting the shares or share capital of any Group Company, no facts or circumstances that may lead to that claim.
- 2.4 Upon the completion of the transaction, the Buyer will have legitimate, effective, complete and exclusive ownership over the Target Equity without any encumbrances, and bear no obligation to make any further investment in the Target Group in any law or contract.
- 3 Other situations of the Group Companies**
- 3.1 The Articles of Association submitted by the Group Companies to the Buyer are complete, true and correct according to applicable laws and all relevant filings, publication, registration and other procedures have been made on time in accordance with applicable laws. No Group Companies have violated any of the terms or provisions of their respective articles of association.
- 3.2 The register of members and other statutory books of the Group Companies are legally prepared and properly stored, reflect the latest situation, and accurately and completely record the various matters that shall be handled. Minutes of the meetings of the board of directors and the board of shareholders accurately record all the resolutions passed by the directors and shareholders of each Group Company and all the resolutions passed by the directors and shareholders of each Group Company have been recorded in the relevant record books. All filings, publications, registrations and other procedures that shall be delivered or made by the Group Company as required by applicable laws have been delivered or made on time.
- 3.3 Save as disclosed in the Agreement, the Group Companies have no subsidiaries, branches, joint ventures or conduct other investments.
- 3.4 Each Group Company has not made any authorization or commission that is valid as at the Execution Date hereof and the Closing Date. Any person (whether as an agent or other status) has no right to bind the Group Companies or cause the Group Companies to assume any obligations.
- 4 Compliance with laws**
- 4.1 Each Group Company is not in violation of, or has not in violation of any applicable laws, including all national laws and regulations and local regulations and rules applicable to the Group Companies issued by the jurisdictions where they conduct business.
- 4.2 The completion of the transaction contemplated hereunder will not (i) result in breaches of each Warrantor or any provisions of articles of association of each Group Company; (ii) result in any conflicts with any applicable laws; (iii) constitute any breach of any provisions of any contract by each Warrantor or each Group Company, cause termination of any rights or obligations of each Warrantor or each Group Company under any contract or lead to increase of any effective interest rate of any debt of each Warrantor or each Group Company; (iv) lead to any Encumbrances of any property or assets of each Warrantor or each Group Company; (v) lead to difficulties or inability of each Warrantor or each Group Company to own or operate businesses.
- 4.3 Any contract, to which any Group Company is a party, shall be valid and constitute binding obligations to the contracting parties, and meanwhile, each Group Company and the other parties to such contract shall, in all material aspects, abide by the terms thereof, respectively. No notice of termination or intended termination with respect to such contracts has been received.

4.4 None of the following events or circumstance have occurred or existed (whether subject to notice or not, or along with the passage of time):(i)possibly constituting or resulting in breaches or non-compliance of any applicable laws by any Group Company; or (ii)possibly resulting in obligating any Group Company to take remedial action of any nature or bear the cost of such action in part or whole. No Group Company does not receive any notice or other correspondence (orally or in writing) concerning (x) any actual, alleged, possible or potential breach or non-compliance with any applicable laws, or (y) any obligation of any Group Company to take any actual, alleged, possible or potential remedial actions of any nature or bear costs, in part or whole, for such remedial actions received from any government authority.

## 5 **Business operations and responsibilities**

- 5.1 Each Group Company has received relevant qualifications with respect to the business, in which they are engaged, and fulfilled any and all binding contracts, announcements, statement or other commitments under such applicable laws and entered into thereby or in any other methods and fully complied with requirements and commitments. The frequency of business related claims against warranty made by customers are and have been always maintained in a normal level, as compared with any competitors in the industry.
- 5.2 Any Group Company has not had or expects any liabilities for any bodily or property damages in an amount of exceeding US\$ 50,000 in the course of business operations. At Closing, any and all disputes or complaints in connection with the business or any service provided by any Group Company have been properly solved, and each Group Company has no obligations that have not been fulfilled, except otherwise fully disclosed in the Financial Statements.
- 5.3 As of the date when the Control Protocol is signed,
- (a) The Parties to the original Control Protocol have duly signed each agreement of the Control Protocol, which shall be completely effective, constitute valid and binding obligations on each party to the agreement and can be carried out as per terms thereof. There is no notice of termination for any of such agreements issued by or received from any contracting party or any government authority.
  - (b) For the purpose of the original Control Protocol, (i) there is not any pending or threatening claims made by any government authority; or (ii) such contracts are not subject to any judgment or order from any government authority. There are no investigations, disciplinary measures, or facts or circumstances that may lead to such claims.
  - (c) As of the date when the original Control Protocol is signed, such Control Protocol shall guarantee that Beijing Baina Zhiyuan exercises effective control with respect to the VIE company, further gains the economic interests from the VIE company and included the financial data thereof into the consolidated financial data of the Target Group.

- (d) With respect to the contractual arrangements established under the original Control Protocol, it shall be determined that Beijing Baina Zhiyuan has the control over the VIE company, and it does not and will not violate any applicable law in China to sign the Control Protocol.
- (e) The VIE company is not deemed by Ministry of Information Industry of China (and/or any corresponding local branches thereof), the Ministry of Commerce or any other government authority with powers and functions to supervise any Group Company or any business thereof as illegal or invalid.

## **6 No claims or litigations**

- 6.1 There are no pending or threatening claims made against or affecting any Group Company or any business thereof or questioning or seeking for prevention, prohibition, alteration or postponement of any contemplated transactions hereunder in any method. No Group Company or any business thereof is involved in any form in any claims that have been realized or can be reasonably expected to have material adverse effects thereon. There are no investigations, disciplinary measures, or facts or circumstances that may lead to such claims.
- 6.2 There are no judgment, court orders or arbitration award that have not been implemented to any Group Company or any business thereof, or any detention, execution or proceedings against any matter mentioned above.
- 6.3 No person that may be held liable for any act or error to any Group Company or any business thereof has been involved in any claims as plaintiff, defendant or any other identity. There are no investigations, disciplinary measures, or facts or circumstances that may lead to such claims.
- 6.4 There are no judgment, court orders, or tribunal or arbitral awards that has not been performed by any person that may be held liable for any act or error to any Group Company or any business thereof; and there is not any detention, execution or proceeding against such person or any assets thereof.

## **7 Bribery Act**

Any Group Company or any representative thereof does not, directly or indirectly, provide, pay, promise to pay or have the authorization to pay any money to or provide, promise to give or have the authorization to give any valuable articles to any government officials or any political party (or to any person when the Target Group or any representative thereof knows or becomes aware that any or all of such money or valuables will be probably provided, given or promised to be given, directly or indirectly, to any government officials or any political party) or any employee or official of any private enterprise, state-owned enterprises or investment companies or any relatives thereof or designated person for the following purposes of:

- 7.1 (x) affecting any act or decision to be made by such government officials or political parties in their official capacity; (y) inducing such government official or political party to conduct or not to conduct any act in violation of the legal duties thereof or (z) gaining any improper advantages;
- 7.2 affecting or inducing to grant any contract to any Group Company of any Affiliates thereof or gaining any other advantages in any other method for any Group Company or any Affiliates thereof or reserving any contract when such contract has been granted to any Group Company or any Affiliates thereof;

- 7.3 assigning any price for payment of any goods or service, which any person sells or buys (or agrees to sell or buy), to a government official or any relatives or designated party of such person; or
- 7.4 engaging in any matter that may breach, seemingly breach or cause any Group Company or any Affiliates thereof to breach any applicable laws.

## **8 Bankruptcy**

- 8.1 No Group Company goes bankrupt or becomes unable to pay due debts under the applicable laws.
- 8.2 There are no proceedings in connection with any compromise or arrangement concluded with any creditor, or any winding-up, bankruptcy or other dissolution proceedings in connection with any Group Company or any business thereof, or any event, in which such proceedings shall be triggered under any applicable laws.
- 8.3 No Group company or any business or assets thereof is subject to the control of any bankruptcy administrator or recipient.

## **9 Financial data and records**

- 9.1 All financial statements shall be prepared in accordance with accounting standards applicable to the principle of consistency. The income statement and the statement of cash flows fairly present the operation results and cash flows of each Group Company for the period covered therein, and the balance sheet fairly present the business status and the financial position of each Group Company as at the date of such statement. No Group Company has had any material changes in the accounting policies, treatment or procedures since the date of incorporation.
- 9.2 The accounts of each Group Company have been prepared based on accounting standards applicable to the principle of consistency. On such basis, such accounts have presented correct opinions on the status of business affairs, assets and liabilities as well as income and losses of each Group Company as at the date of the financial statement.
- 9.3 All account receivables of each Group Company are reflected in the financial statement, indicating that sales or loans actually incurred in the course of normal business, less of any provisions reflected in the financial statements, flow and are recoverable with aging of less than sixty (60) days
- 9.4 Except for liabilities presented, provided or disclosed in the financial statements, each Group Company has no liabilities that are not fulfilled.
- 9.5 The financial data has accurately, completely, authentically, comprehensively and fairly reflected the Target Group and other items measuring the values of the Target Group for the purpose of the transactions under the Agreement, and, and disclosures have been made accurately, completely, authentically, comprehensively and fairly in the financial data.

## **10 Accounts and registers**

- 10.1 Each Group Company has prepared and maintained all the accounts, registers and records in accordance with applicable laws.



- 10.2 All the accounts, books, ledgers, financial records and other records maintained by each Group Company in accordance with applicable laws, regulations and provisions:
- (a) are held by such Group Company or any agent duly authorized thereby;
  - (b) have been properly maintained and reflected recent status;
  - (c) do not contain any errors or deviations of any kind (except for unintentional, slight or non-material errors); and
  - (d) truly and fairly reflect all transactions of such Group Company and the financial, contractual and transactional status thereof.

## 11 Taxation

- 11.1 Each Group Company (i) has filed all required tax returns to any competent government authority with proper jurisdiction or in proper place in a timely manner; (ii) has paid all tax payables due or withheld and paid all taxes to any competent government authority with proper jurisdiction or in proper place from the amount of money of any employee, creditor, customer or a third party that is obligated to pay taxes in a timely manner; and (iii) has never waived any statutory limitation of any taxation or agreed to any extension on any tax collection or insufficient collection.
- 11.2 Each of the tax returns filed by any Group Company is prepared in accordance with applicable laws, was and is authentic, correct and complete. Such tax returns do not contain any false or misleading statements, omissions or any matters that should be included, and if not, will cause the statement to be false or misleading. If required by applicable laws, the reporting base adopted by any tax returns has been disclosed to proper tax authority or in such tax returns. It is required by the applicable laws that each Group Company shall respectively preserve relevant tax returns or all the records prepared thereby have been properly preserved.
- 11.3 There are no questions or requests concerning any taxation liabilities of any Group Company. There are no pending disputes with or notices from any tax authority in connection with tax returns filed by any Group Company, which, if any unfavorable determination is made from such dispute or in the notice, will lead to default of payment of a single alleged tax record by any tax authority; and there is not any proposal to impose any liabilities on any Group Company attributable to any default of payment of any tax. No Group Company has ever become an object of any ongoing and pending review or investigation from any tax authority with respect to their business expansion, payment or withholding of taxes; or is required by any tax authority to conduct self-examination or is at present an object of any ongoing and pending review or investigation from any tax authority with respect to their business expansion, payment or withholding of taxes.
- 11.4 Each Group Company has completed the filing of all documents required for taxation, including applications for preferential tax policies, exemption and privileges. No Group Company is aware of any reasons or circumstances, upon reasonable expectation, that may lead to rejection of any application for such preferential tax policies, exemption or privileges.
- 11.5 No Group Company has become a party to the transaction or a series of transactions, which contain procedures for no business or commercial purposes and have not been approved by any competent government authority.

- 11.6 No Group Company has ever concluded any false or fabricated transactions or transactions with the main or one of the main purposes to avoid or postpone or reduce tax liabilities.
- 11.7 All related party transactions(as defined by applicable law), to which any Group Company is a party, are developed and carried out on fair terms in accordance with the requirements of transfer pricing principles, laws and documents carried out by the tax authority in all relevant regions.
- 11.8 All the taxes arising from or in connection with the following items have been properly and fully paid, and the Sellers, each Group Company and/or any Affiliated thereof have fulfilled all obligations in connection with taxes that shall be or are presumed to be undertaken thereby, including:
- (a) all taxes that shall be or are presumed to be undertaken by each Group Company (payable when due); or
  - (b) Late fees and/or penalties (if any) in connection with overdue payment of the tax mentioned-above.
- 11.9 With respect to all taxes payable of each Group Company or the Company and any subsidiary thereof (if any) that are due on or before the Closing Date or recognized for taxation purpose (no matter recognized for accounting purposes or not), including indirect taxes (e.g. VAT and business tax) and direct taxes levied on all kinds of income, profits, business revenue or gains that are earned, generated or received, each Group Company has made tax provisions in full amount in the financial statements thereof; for any deferred tax (if applicable) calculated in accordance with the generally accepted accounting principles, full tax provisions have been made in the financial statements. Each Group Company has and maintains all records and information possibly required for filing of tax returns in a correct and complete manner in the accounting period.
- 11.20 Completion of the transaction under this Agreement will not:
- (a) result in any loss of any Group Company or any cancellation or reduction of any subsidy, credit or deduction alleviating tax burdens, to which any Group Company is entitled in terms the profits, gains or income (or assessed profits, gains or income); or
  - (b) result in any other or additional taxes to be paid by the Company or its subsidiary (if any).
- 11.21 Each domestic company, which is a Chinese taxpayer, has no permanent establishment in outside China and is not a taxpayer in any country other than China, has no tax liability or reporting obligation outside China.

## **12 Events occurred after the date of the financial statements**

- 12.1 Since the date of the financial statements, except as required in the course of normal business or any transaction of each Group Company,
- (a) the business of each Group Company is developed and/or expanded according to normal business operation practice and/or actual situations to maintain its ability of going concern, except for making no changes to any management or operation methods of its business, undertakings or assets or making changes in an inherently consistent method or expanding business subject to actual conditions;

- (b) there are no events that may have any material adverse effect on the assets, liabilities, financial positions, trading status or prospect of any Group Company;
- (c) there is not any alteration to the constitutional documents of any Group Company (no matter through merger, combination or any other methods);
- (d) there is not any change to any director of any Group Company;
- (e) there is not any acquisition, direct or indirect, of any asset, securities, property, interest or business (in the form of merger and acquisition, combination, equity or asset acquisition or in any other form) in any Group Company, excluding any supplies (if applicable) in consistency with usual operations and within the scope of normal business;
- (f) no Group Company has issued, delivered or sold or authorized the issuance, delivery or sales of (no matter through merger and acquisition, combination, IPO or any other method) any shares of any securities;
- (g) no Group Company has not gone through dissolution, bankruptcy, de-registration, liquidation or re-organization;
- (h) no Group Company has divided, combined or re-classified any securities or declared, withdrawn or paid any dividend or other distribution (in the form of cash, share, property or a combination thereof), or redeemed, repurchased or acquired in other methods any securities or offered to redeem, repurchase or acquire in other methods any securities;
- (i) Unless mandated by any applicable law, no Group Company has (i) established, adopted or amended any collective bargaining, rewards, profit distribution, savings, pension, retirement, delayed payment, remuneration, stock options, restricted stocks or other benefit schemes or arrangements to any director, management or employee; or (ii) increased any remuneration, rewards or other benefits payable, separation payment or termination payment (or any amendment to any original arrangements) to any director, management or employee;
- (j) no Group Company has generated any capital expenditure or made any capital commitment beyond the course of normal business;
- (k) no Group Company has set up, incurred, undertaken or subjected to any loan debts or guarantee, or is bound or required to early repay any outstanding loans on the Execution Date or the Closing Date;
- (l) no Group Company has: (i) acquired any asset of any nature; (ii) sold, transferred or disposed in any other method of any asset of any nature; or (iii) cancelled, waived, relieved or sold on discount any debt or claims in party or whole;

- (m) no Group Company has (i) made any compromises or offered or proposed any compromises; (ii) initiated any lawsuits, investigations, arbitrations, proceedings or made any other claims; (iii) had any shareholder-related lawsuits against or disputes with any management or director; or (iv) had any lawsuits, arbitration, proceedings or disputes in connection with any contemplated transactions hereunder;
- (n) no Group Company has appointed or changed any auditors, had any change of tax selection, had determination or change of any tax accounting years, adopted or changed tax accounting methods, filed any alteration of tax returns or tax imbursement requests, reached any tax settlement agreement, made any compromises on demanding tax compensation, audit or collection or waived any claim for tax rebate, tax deduction or other reduction of tax liabilities;
- (o) no Group Company has created any Encumbrances to sales, lease or other transfer of any asset, securities, property, interest or business;
- (p) no Group Company has provided any other person with any loans, prepayment (except for advance payment in consistency with usual business operations) or capital contribution, or made any warranty, compensation, guarantee of joint liabilities or other guarantee for any investment made thereby or to the benefits thereof;
- (q) affecting the business or assets and having or being able to reasonably expect any damages, destructions or other accidental losses (no matter covered by insurance or not) that have individually or wholly had any material adverse effects;
- (r) (i) concluding any agreement or arrangement, which limits, or restricts in other methods itself or any of its Affiliates or any successor thereto, or possibly limits or restricts after the Closing itself or the Buyer or any Affiliates thereof from engaging in any operating activities or competitions in any kind of business in any place or with any person; or (ii) waiving, releasing or transferring any rights, claims or interests under unfair conditions;
- (s) actual or threatening occurrence of any act of any employee or labor disputes, lockout, strike, sabotage in connection therewith;
- (t) no Group Company has breached any terms or provisions of any debts, mortgage, contract or any applicable laws; and
- (u) no Group Company has signed any management consultancy agreement or any other (single or a series of )agreements causing the Company to bear any cost in excess of USD 50,000.

12.2 Compliance with terms of the Agreement will not:

- (a) conflict with any terms, conditions or regulations of any agreement or document (such agreement or document remains effective and/or outstanding on the Execution Date and the Closing Date of the Agreement), to which any Group Company is a party, or any provisions of the articles of association of any Group Company or any Encumbrances, lease, contract, order, judgment, ruling, bans, rules or other limitation or obligations of any kind or nature that are binding on or have any jurisdiction over any Group Company or any asset thereof on the Execution Date and the Closing Date, or lead to breach of any of the foregoing items or constitute any breach under the foregoing item;

- (b) relieve any person from any (contractual or other) obligations that such person is supposed to undertake for any Group Company;
  - (c) cause the creation, or imposing of any Encumbrances on any asset of any Group Company or cause such Encumbrances to be materialized or enforced; and
  - (d) cause any current or future debt of any Group Company to be due or declared due and payable before the specified due date.
- 12.3 no Group Company has agreed to be any member of any joint venture, conglomerate, partnership or other non-groups; no Group Company is or has agreed to be a party to any agreement or arrangement concerning any commission or other revenue sharing.

### 13 Assets

- 13.1 all cash and other assets owned, or acquired, or not disposed by a Group Company in the normal course of business belong to such Group Company without any Encumbrances attached or any arrangement on payment by installment; if there is any Encumbrance on any cash or asset of any Group Company, such cash or asset will not be limited in use due to such Encumbrance.
- 13.2 The assets of a Group Company are held and controlled by such Group Company, and can be and will be constantly used in the normal course of business (subject to normal loss) within the reasonable requirements and in compliance with designed or acquired purposes.
- 13.3 To the actual knowledge or to the reasonable knowledge of each Warrantor after making proper inquiries or duty of care, there are no factors that will make it difficult for any Group Company to recover account receivables and other due payments of such Group Company arising in the normal course of business as at the Closing Date; there is no dispute or counter-claim in any foregoing payment and such payment is not offset.

### 14 Real estate

- 14.1 For the real estate privately owned by a Group Company,
- (a) Such Group Company is entitled to perfect title to such real estate without any Encumbrances.
  - (b) Each of such privately owned real estate complies, in all aspects, with applicable laws and meets the business operations of such Group Company.
  - (c) No real estate of each Group Company that is constantly used, occupied or operated under lease respectively in current methods of use, occupation and operation constitutes any breach of applicable laws concerning buildings, planning, fire preventions, zonings and other land use related laws and similar laws.
- 14.2 For the real estate privately leased by a Group Company,

- (a) The landlord of each lease is entitled to perfect title of the real estate under such lease without any defect in such title. Each of such real estate under any lease complies, in all aspects, with applicable laws and meets the business operations of such Group Company. No real estate of each lease and each Group Company that is constantly used, occupied or operated under lease respectively in current methods of use, occupation and operation constitutes any breach of applicable laws concerning buildings, planning, fire preventions, zonings and other land use related laws and similar laws.
- (b) Each lease constitutes an entire agreement concerning the real estate under such lease, to which a Group Company is a party, and the true and complete copy of each of such lease, together with any alteration, modification, variation and other changes made thereto, shall be handed to the Buyer. Each lease is validly existing and enforceable to both parties thereto to the extent of terms thereof. On the Execution Date, all the conditions precedent for the enforceability of each lease have been met. Each Group Company accepts and actually occupies the real estate according to respective lease, and has not sub-leased, assigned or mortgaged the leasehold interests thereof. Each lease had been registered or filed for records as required.
- (c) Each Group Company always pays the rent in a timely manner or pay other expenses and costs according to such lease. Subject to the terms of any lease, there are no defaults or events of defaults, for which no remedial measures have been taken, or of which any waiver is made against any Group Company, or any event that may constitute default or event of event of default along with the delivery of notice or passage of time or both. There is not any pending or threatening expropriation, confiscation, dispute, claims, requirements or similar proceedings that are in connection with or may have adverse effects on constant use or entitlement to any lease.

14.3 No Group Company has used any real estate in the course of developing business, except for any real estate that is privately owned by such Group Company, or the lease with respect to which has been obtained by such Group Company.

## 15 Management and employees

15.1 In terms of former and current employees of each Group Company, such Group Company abides by any and all applicable laws and contracts in connection with employment and labor, including any provisions in relation to salaries, work hours, and social securities, separation compensations and other benefits of employees involved therein. No Group Company has any contract with any labor union. Each Group Company has, in a timely manner, (i) withheld and paid all the money that shall be withheld by such Group Company from any employee according to applicable laws and contractual provisions and paid to proper government authority, including withholding of all compulsory funds, individual income tax, social insurance and housing fund (if applicable) that should be paid by such employee; (ii) made all payments in full amount to proper government authority as required by applicable laws and contractual provisions, including payment of compulsory funds, social insurance and housing funds (if applicable) that are payable by such Group Company; and (iii) paid all the money in full amount to such employee that shall be paid according to applicable laws and contracts, including all salaries, overtime pay, bonus, benefits, separation compensation and other compensations that should be paid to such employee.

- 15.2 No management, employee or consultant of any Group Company is obligated under any contract (including any permission, agreement or commitment of any nature) or subject to any ruling, decision or order of any court or administrative authority, thus preventing such management, employee or consultant from promoting the interests of such Group Company with his/her best efforts (as case may be), or conflicting with the business or preventing such management, employee or consultant from transferring the copyrights of any invention fermented or put into practice or materials developed in the course of rendering service to such Group Company. No circumstance as follows will conflict with or lead to breach of terms, conditions or provisions of any contract, commitment or instrument, under which such management, employee or consultant is obligated or constitute any defaults under such contract, commitment or instrument: (i) completion of transactions under the Agreement and (ii) development of respective business of each Group Company. There is no reason for a Group Company to believe that, it is or will be necessary to use any invention made by any employee (or any individual who such Group Company intends to employ at present) before such employee is employed or beyond the range of employment. No completion of any transaction hereunder (individually or after the occurrence of any additional or subsequent events) will constitute any event under any benefit plan or individual agreement that will or may lead to any payment (of separation compensation or otherwise), accelerated maturity, affiliation or increase of benefits in relation to any employee, former employee, consultant, agent or director of any Group Company.
- 15.3 In addition to any statutory social insurance benefits, no Group Company has any pension, profit-sharing, share options plans, plans for share acquisition by employees or other plans requiring provision of any incentive or other remunerations to employees (except for any remuneration paid to employees in the course of routine business) or any other benefit plans for employees. In addition to contributions or accrued benefits required for current year, no Group Company has, under any applicable laws in connection with benefit plans or according to any applicable laws in relation to benefits plans, incurred and is expected to incur any liability, and there are no events, transactions or circumstances occurred or existing that may cause such Group Company to incur such liabilities. Each benefit plan complies with and will always comply with all applicable provisions of applicable laws.
- 15.4 There have been no strikes or collective labor disputes, to which a Group Company is a party and any employee thereof is the other party in the past three (3) years; and at present, there is not any pending, threatening or reasonably expected strike or labor dispute, to which a Group Company is a party and any employee thereof is the other party.

## 16 Insurance

Each Group Company maintains (i) sufficient insurance for all types of assets and activities that are usually insured, covering any property damages and loss of income resulting from fire disasters or any other accidents, and (ii) sufficient insurance against all liabilities, claims and risks that are usually insured by any company in similar circumstance and each Group Company shall be registered as the only beneficiary of such insurance.

## 17 Intellectual Property

- 17.1 All Intellectual Properties used or formerly used by any Group Company shall be deemed as legally and beneficially owned by such Group Company or intellectual properties that can be legally used subject to the permission of the owner thereof (as the case may be). Intellectual Properties of a Group Company sufficiently allow such Group Company to operate business as it is on the Execution Date and allow such Group Company to operate as expected after the Closing Date.
- 17.2 Part I of Appendix Eight hereto sets out the authentic, complete and accurate details of Intellectual Properties owned by each Group Company (“Self-owned Intellectual Properties”), each of which is legal and is in full force and effect. Each Group Company is the lawful and exclusive owner of all Self-owned Intellectual Properties, and has all rights and interests therein without any encumbrances, including the right to file a lawsuit against any act of infringement. There are no pending or threatening claims to raise questions about the validity, enforceability, scope, terms or any other aspect of any Self-owned Intellectual Property, and no Self-owned Intellectual Property is determined to be invalid or unenforceable in part or whole in any claim for any reason.
- 17.3 Part II of Appendix Eight thereto sets out the authentic, complete and accurate details of Intellectual Properties used by any Group Company with the consent of the owner (“Permitted Intellectual Properties”); each Group Company has the right to use Permitted Intellectual Properties subject to terms and conditions concluded with each third party and provisions of applicable laws, and corresponding rights and interests for lawfully holding such Intellectual Properties.
- 17.4 Each Group Company has sufficient rights to use Self-owned and Permitted Intellectual Properties; such sufficiency shall not be changed and shall remain unchanged after the transactions contemplated hereunder are completed. Each Intellectual Property owned or used by any Group Company shall be valid, continue to exist and mandatorily enforceable, and no directions, judgments, decisions or agreements that have not been fully implemented will have any adverse effect on such Intellectual Property in use or any rights thereof, to which such Group Company is entitled. No Group Company has infringed or violated in other way any Intellectual Property of any third party.
- 17.5 Each Group Company has taken reasonable measures to protect the confidentiality and values of all trade secrets owned; and except in accordance with any valid and proper confidentiality and/or licensing agreement that is not breached, no person has used, disclosed or discovered any trade secrets. All employees and consultants of each Group Company have signed confidentiality agreement of intellectual properties for their respective benefits of each Group Company, according to which, each of such employees has transferred each Intellectual Property to each Group Company respectively, and agreed to keep the confidentiality of all trade secrets.
- 17.6 To the knowledge of each Warrantor after making efforts for all necessary inquiries, no third party has registered or used any Intellectual Property (no matter registered or not, including any application for registration) or any domain name owned or used by each Group Company or that is the same as or similar to any name used for business in any other ways.



- 17.7 No warrantor or Group Company or any existing or former owner of any Self-owned Intellectual Properties has received any notice of any threatening, pending or ongoing claims in connection with any actual or alleged infringement of Intellectual Properties of any third party, or become aware of any fact or circumstance that may lead to such claims upon reasonable expectation.
- 17.8 No Group Company has been involved in any infringement or embezzlement or violation in other ways of Intellectual Properties of any third party, or has had any pending, threatening or ongoing claims in connection with the foregoing matters.
- 17.9 No warrantor or Group Company or any existing or former owner of any Self-owned Intellectual Properties has granted any license or other rights to use any Self-owned Intellectual Properties to any third party.
- 17.10 Each intellectual property licensing agreement, to which a Group Company is a party, is fully valid and binding, and such agreement shall be an entire agreement concluded by the parties with respect to the matters mentioned therein. No Group Company has violated or breached, or is alleged to have violated or breached any intellectual property licensing agreement, to which such Group Company is a party. The counterparty to such intellectual property licensing agreement does not terminate such agreement for any reason. No Group Company is, upon reasonable expectation, aware of any reason or circumstance that may lead to such termination. No such intellectual property licensing agreement will become invalid or unbinding or unable to come into effect on terms effective on the Closing Date.
- 17.11 There are no lawsuits or any other claims in relation to infringement or embezzlement of any Self-owned Intellectual Property, and no person is involved in any infringement or embezzlement of any Self-owned Intellectual Property.
- 17.12 Any rewards, remunerations of inventors or other rewards or remunerations of creators and designers of any Self-owned Intellectual Property to be paid as required by any and all applicable laws have been fully paid to such inventor, designer or creator in a timely manner.

## **18 Information Technology**

- 18.1 Each Warrantor has provided the Buyer with all particulars of information technology possessed by, or used by each Group Company with permission or in other ways, on or before the Execution Date; while each Group Company respectively is the only legal and beneficial owner of such information technology, clear of any encumbrance in the case, or is the legal licensee of such information technology.
- 18.2 All information technology possessed or used by each Group Company, or by any third party on behalf of each Group Company, operates in accordance with the technical specifications and instructions, is in good condition, and free from any vulnerability, virus, trojan horse, defect or security flaw, and is maintained based on good industry practice.
- 18.3 Each Group Company does not incur any business or operation suspension due to any of the following matters: (i) any security flaw with respect to any information technology, (ii) any breakdown (whether due to any vulnerability, virus, flaw or others), under-capacity or other sub-standard performance of any information technology, or (iii) any breakdown, suspension, or any flawed operation of any information technology caused by the occurrence or treatment on any date. There is no such circumstance that might or is expected to cause any such suspension.

- 18.4 Each Group Company has implemented appropriate backup and disaster recovery technology consistent with the industry practice.
- 18.5 On or before the Execution Date, each Warrantor has provided the Buyer with all particulars of all agreements and arrangements with respect to information technology, which are concluded by each Group Company or according to which each Group Company is entitled to any interests.
- 18.6 Any information technology possessed or used by each Group Company is not the object of any lawsuit, or other disputes or claims.
- 18.7 Each Group Company legally or beneficially owns or enjoys the contractual right to all information technology and business information necessary or required for its business operation, or the implementation of any existing contract, commitment, plan or proposal; while such contractual right will not be directly or indirectly damaged by any transaction proposed in this Agreement.
- 18.8 Each Warrantor has provided the Buyer with all particulars of the domains registered in the name of each Group Company or used by each Group Company on or before the Execution Date. There was or is neither dispute or objection with respect to the use or registration by each Group Company of any domain as mentioned in this paragraph, nor any circumstance that might or is expected to cause such dispute or objection. All registrations of such domains have been retained; while all relevant expenses and necessary administrative measures have been paid and adopted respectively.
- 18.9 Any information technology possessed or used by each Group Company within twelve (12) months prior to the Closing Date does not infringe the information technology of any third party, or constitute any unauthorized use of any third party's information technology.

## 19 Major Contracts

- 19.1 Except as provided in this Agreement, with respect to any agreement, document or arrangement to which any Group Company is a party, there is neither claim which still exist as of the Execution Date and will cause material adverse effect on each Group Company in the whole due to any non-performance and default, nor the possibility of occurrence of such claim, and any circumstance that might cause such claim.
- 19.2 It is actually known to each Warrantor or should be reasonably known to each Warrantor based on appropriate inquiry or the performance of duty of care, all parties with which each Group Company concludes agreements or which have obligations to each Group Company, do not violate the agreements concluded with each Group Company and the obligations to each Group Company. Each Group Company does not violate any agreement or arrangement to which it is a party (such agreement or arrangement is still effective and/or unfinished as of the Execution Date and the Closing Date of this Agreement), thus causing material adverse effect on each Group Company.

- 19.3 It is actually known to each Warrantor or should be reasonably known to each Warrantor based on appropriate inquiry or the performance of duty of care, there is no offer, bid or similar matters which will cause material adverse effect on the overall business or financial situation of each Group Company.
- 19.4 Each Group Company does not conclude or undertake any contract, transaction, arrangement or responsibility as described below (such contract, transaction, arrangement or responsibility is still valid and/or unfinished as of the Closing Date, and the involved amount of each contract, transaction, arrangement or responsibility exceeds USD50,000, but the obligation of each Group Company under such contract, transaction, arrangement or responsibility (except as specifically reflected in the Disclosure Letter): special or unusual, or outside the ordinary course of business).
- 19.5 It is actually known to each Warrantor or should be reasonably known to each Warrantor based on appropriate inquiry or the performance of duty of care, each Group Company is not subject to any responsibility or obligation with respect to remedies for violations.
- 19.6 As of the Execution Date hereof, the contracts or arrangements concluded by each Group Company (such contracts or arrangements are still valid and/or unfinished as of the Closing Date) all have been made based on fair trade; while the profit or financial situation of each Group Company has not been affected by any contract or arrangement made not based on fair trade.

## **20 Related Transactions**

The transactions between each Group Company, each Warrantor and the affiliates (including possession of funds, provision of finance, procurement, permission, credit and debt, etc.) have been fully disclosed; there is no other transaction between each Group Company, each Warrantor and the affiliates. The commercial terms for the related transactions between each Group Company, each Warrantor and the affiliates are fair and equitable, with no circumstance damaging the interests of each Group Company or unreasonably increasing the burden of each Group Company.

## **21 Environment, Health and Safety Matters**

- 21.1 Each Group Company has always abided by and now still abides by all environment, health and safety requirements during the course of business operation.
- 21.2 Without affecting the scope as stated above, each Group Company has obtained, always abided by and now still abides by all permits necessary for business operation according to environment, health and safety requirements, including approval and opinions in the environmental impact assessment report, the finished environmental protection facilities inspection report, opinions or inspection certificate, pollutant discharge application and permits, and all permissions, permits and approvals with respect to safety matters of each Group Company (including fire fighting), if applicable; such permits are valid and have full effect, will not be completely or partially terminated, weakened or become terminable due to any transaction under this Agreement.
- 21.3 Each Group Company is not subject to any kind of responsibility in the business caused by environment, health and safety requirements, or concerning environment, health and safety requirements, no matter responsibility occurred, contingent, absolute, asserted, identifiable or other responsibilities; while there is no fact, condition, circumstance or a series of cases which are reasonably expected to cause such responsibilities or become the basis of such responsibilities.

- 21.4 With respect to any matter concerning the business, no notice, announcement, request, information requirement, subpoena, summon or order with respect to or arising from environment, health and safety requirements has been received, no complaint or punishment has been made, and no pending, potential investigation, action at law, claim, case, proceedings or review has been instituted by any government department or other person.
- 21.5 No hazardous materials have been temporarily or permanently discharged, handled, dumped, injected, pumped, buried, spilled, leaked, drained or released at, over or below the property currently or once used for the business. For the purpose of this Agreement, Hazardous Materials refer to all harmful or toxic materials, including: (i) any chemicals, compounds, materials, mixtures or substances which are defined, listed or otherwise classified as harmful materials currently or in the future under any applicable law; (ii) petroleum, natural gas, natural gas liquid, liquefied natural gas, synthetic gas which can be used as fuel (or mixture of natural gas and that synthetic gas), ash formed from handling municipal solid waste by resource recycling facilities, drilled fluid, produced water and other waste concerning exploration, development and mining of crude oil, natural gas or geothermal resources; (iii) asbestos of any form; (iv) urea resin foam-plastic insulating materials; (v) any other chemicals, materials or substances of which the exposure is limited or regulated by any government department due to health and safety reasons and because of the quantity, density, physical or chemical characteristics, or which might cause immediate or potential major hazards to human health and safety or the environment if discharged to workplaces or the environment.

## **22 Loans and Guarantees**

- 22.1 Each Group Company has no outstanding loan capital or borrowed or raised funds.
- 22.2 Each Group Company has no guarantee or security form or similar documents which have not been fully performed, or have been made by it or made in favour of it.

## **23 Full Disclosure**

- 23.1 After the Buyer expresses the intention to subscribe to the Target Equity, all information provided by each Warrantor to the Buyer or any of its representatives, or by any third party on behalf of each Warrantor to the Buyer or any of its representatives are true and accurate in all aspects, and there is no fact or matter which has not been provided to the Buyer or any of its representatives in written form, and make the information mentioned above become untrue or misleading.
- 23.2 Each Warrantor is not informed of any fact or circumstance which is related to it, the Target Equity or each Group Company, might cause material adverse effect, or is reasonably expected to affect the decision of the Buyer to subscribe to the Target Equity according to the terms hereof, if disclosed, and has not been disclosed in the Disclosure Letter.
- 23.3 The representations and warranties of each Warrantor under this Agreement, any statements or certifications provided currently or in the future to the Buyer according to this Agreement, or any statements or certifications relating to the transaction proposed hereunder, do and will not include any misstatement of material facts, do and will not omit any material facts which cause any statement under this Agreement or above-mentioned statements or certifications be misleading.

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## Part II The Seller's Warranties

### 1 Establishment, Good Standing and Qualification

- 1.1 Each Seller (in case of company) (1) is a limited liability company legally established according to the laws of the place of registration, in good standing and with good credit; (2) has all necessary power and authority to possess and operate its property and conduct the business, sign, deliver and perform this Agreement and complete the transaction proposed hereunder; (3) has the proper qualification to carry out business transaction respectively, has all permits and qualification necessary for such business operation, and has good credit in each judicial district where such qualification is required; and (4) since its establishment, has always abided by all applicable laws to do business.
- 1.2 Each Seller (in case of natural person) is natural person with full capacity for civil conduct.

### 2 Authorization

- 2.1 Each Seller has taken all necessary actions so that it can authorize, sign and deliver this Agreement and perform its obligations hereunder. This Agreement, and any other agreements and/or instruments to which each Seller is a party according to this Agreement, constitute the valid and legally binding obligations of the Seller, and can be implemented according to the relevant terms.
- 2.2 Except the consent obtained on the Closing Date, no other consent is required from any person for each Seller to sign, deliver or perform this Agreement or complete the transaction proposed hereunder.

### 3 Target Equity

Target Equity (i) has been officially and effectively issued and fully paid, (ii) when delivered for the consideration hereunder according to this Agreement, each Seller will transfer to the Buyer the proper and valid ownership to Target Equity without transfer restriction and other encumbrances, and all rights and interests attached.

### 4 No Violation

Signing, delivery and performance of this Agreement or completion of the transaction proposed hereunder by each Seller will not (i) cause any violation of, or conflict with any provisions in organization documents valid as of the Execution Date, or constitute violation, whether with time lapse or notice; (ii) constitute the conflict with any applicable laws; (iii) constitute the violation of any provisions in any contract, or cause the termination, cancellation or advance of any rights or obligations of each Seller under any provisions of any contract, or cause the loss of any interests of each Seller under any provisions of any contract; or (iv) cause any property or asset of each Seller be subject to any encumbrance (Except as expressly agreed by related parties in the transaction documents).

**5 Insolvency**

Each Seller will not and has no reason to believe that it might become insolvent or unable to pay debts coming to maturity in the foreseeable future according to applicable laws. Each Seller is not and has no reason to believe that it might be subject to legal proceedings concerning any compromise or arrangement with creditors in the foreseeable future, or any liquidation, bankruptcy or other dissolution procedures for the Seller. Moreover, it is currently known to each Seller that any incident that might trigger such legal proceedings according to applicable laws does not exist.

**6 No Claim or Lawsuit**

No claim is pending or threatened to be made against or involving each Seller or its affiliates, and relating to each Group Company or its business in any way.

### Part III The Buyer's Warranties

#### 1 Establishment, Good Standing and Qualification

Each Buyer is a company legally established and validly existing according to the laws of the place of registration, and in good standing; (2) has all necessary corporate power and authority to sign and deliver this Agreement and complete the transaction proposed hereunder.

#### 2 Authorization

Each Buyer has the full power and authority to conclude this Agreement; while this Agreement constitutes the valid and legally binding obligations of the Buyer, and can be implemented according to the relevant terms, under the supposition that the signing and delivery of this Agreement is proper and valid.

#### 3 No Violation

Signing, delivery and performance of this Agreement or completion of the transaction proposed hereunder by each Buyer will not (i) cause any violation of, or conflict with any provisions in organization documents valid as of the Execution Date, or constitute violation, whether with time lapse or notice; (ii) constitute the conflict with any applicable laws; (iii) constitute the violation of any provisions in any contract, or cause the termination, cancellation or advance of any rights or obligations of each Buyer under any provisions of any contract, or cause the loss of any interests of each Buyer under any provisions of any contract.













**Investment Agreement**

**Signature Page**

(This page is intentionally left blank for the signature of the Investment Agreement)

The Agreement has been signed by the parties on the Execution Date.

Executed, sealed and delivered by Glory  
Loop Limited

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Executed, sealed and delivered by  
the authorized signatory of Glory  
Loop Limited:

By \_\_\_\_\_  
(authorized signatory)

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Investment Agreement

Executed, sealed and delivered by Beijing  
Gamease Age Internet Technology Co.,  
Ltd.

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Signed by the authorized signatory  
of Beijing Gamease Age Internet  
Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed and delivered by Baina,  
Inc.

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Signed by the authorized signatory  
of Baina, Inc.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed and delivered by Forest  
Group Investment Limited

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Signed by the authorized signatory  
of Forest Group Investment Limited:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement



Executed, sealed and delivered by Matrix  
Partners China II Hong Kong Limited

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Signed by the authorized signatory  
of Matrix Partners China II Hong  
Kong Limited:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed and delivered by Sequoia  
Capital 2010 CV Holdco, Ltd.

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Signed by the authorized signatory  
of Sequoia Capital 2010 CV Holdco, Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed and delivered by  
QUALCOMM Incorporated

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Signed by the authorized signatory  
of QUALCOMM Incorporated:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed and delivered by Yongzhi Yang

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Signature Page of the Investment Agreement

Executed and delivered by Tiefeng Liu

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Signature Page of the Investment Agreement

Executed and delivered by Youyang Xie

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Signature Page of the Investment Agreement

Executed and delivered by Na Zeng

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Signature Page of the Investment Agreement

Executed and delivered by Zhou Yu

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Signature Page of the Investment Agreement



Executed and delivered by Sen Li

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Signature Page of the Investment Agreement

Executed, sealed and delivered by MoboTap Inc.

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Signed by the authorized signatory of MoboTap Inc.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed and delivered by MoboTap Inc. Limited.

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Signed by the authorized signatory of MoboTap Inc. Limited:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed and delivered by MoboTap Inc.

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Signed by the authorized signatory of MoboTap Inc.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed and delivered by Dolphin Browser Inc. )  
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By \_\_\_\_\_ )  
(authorized signatory)

Signed by the authorized signatory of Dolphin Browser Inc.:

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Signature Page of the Investment Agreement

Executed, sealed and delivered by Muse Entertainment Limited )

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By \_\_\_\_\_ )  
(authorized signatory)

Signed by the authorized signatory of Muse Entertainment Limited:

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Signature Page of the Investment Agreement

Executed, sealed and delivered by Dstore Technology Limited

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Signed by the authorized signatory of Dstore Technology Limited:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed with the common seal and delivered by Baina Zhiyuan (Chengdu) Co., Ltd.

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Signed by the authorized signatory of Baina Zhiyuan (Chengdu) Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement



Executed, sealed with the common seal and delivered by Baina Zhiyuan (Beijing) Technology Co., Ltd.

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Signed by the authorized signatory of Baina Zhiyuan (Beijing) Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

\_\_\_\_\_

Executed, sealed with the common seal and delivered by Beijing  
Baina Information Technology Co., Ltd.

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Signed by the authorized signatory of Beijing Baina  
Information Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed with the common seal and delivered by Baina  
(Wuhan) Information Technology Co., Ltd.

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Signed by the authorized signatory of Baina (Wuhan)  
Information Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed with the common seal and delivered by Chengdu Xingyu Science and Technology Co., Ltd.

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Signed by the authorized signatory of Chengdu Xingyu Science and Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed with the common seal and delivered by Wuhan Xingyu Science and Technology Co., Ltd.

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Signed by the authorized signatory of Wuhan Xingyu Science and Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed with the common seal and delivered by Wuhan  
Hualian Chuangke Science and Technology Co., Ltd.

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Signed by the authorized signatory of Wuhan Hualian  
Chuangke Science and Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed with the common seal and delivered by Beijing Anzhuoxing Science and Technology Co., Ltd.

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Signed by the authorized signatory of Beijing Anzhuoxing Science and Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement

Executed, sealed with the common seal and delivered by Shanghai Andepurui Network Science and Technology Co., Ltd.

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Signed by the authorized signatory of Shanghai Andepurui Network Science and Technology Co., Ltd.:

By \_\_\_\_\_  
(authorized signatory)

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Signature Page of the Investment Agreement



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

English Translation

Shareholder Agreement

Executed on July 31, 2014

Glory Loop Limited (Overseas Acquirer)  
Beijing Gamease Age Internet Technology Co., Ltd. (Domestic Acquirer)  
and  
Baina Inc.  
and  
Yongzhi Yang  
and  
MoboTap Inc. (Cayman)  
MoboTap Inc. Limited  
MoboTap Inc. (US)

Baina Zhiyuan (Chengdu) Technology Co., Ltd.  
Baina Zhiyuan (Beijing) Technology Co., Ltd.  
Beijing Baina Information Technology Co., Ltd.  
Baina (Wuhan) Information Technology Co., Ltd.  
Chengdu Xingyu Science and Technology Co., Ltd.  
Wuhan Xingyu Science and Technology Co., Ltd.  
Wuhan Hualian Chuangke Science and Technology Co., Ltd.  
Beijing Anzhuoxing Science and Technology Co., Ltd.

# Shareholder Agreement

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The Shareholder Agreement (the “Agreement”) is made of July 31, 2014 by and among the following parties:

- (1) Glory Loop Limited (an overseas acquirer), a company with limited liability legally established and validly subsisting under the laws of the British Virgin Islands and a wholly-owned subsidiary of Changyou.com HK Limited at the execution date of the Agreement, with registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the “Overseas Changyou”);
- (2) Beijing Gamease Age Internet Technology Co., Ltd. (a domestic acquirer), a limited liability company established and validly subsisting under the laws of China with its registered address at 2/F, West Side Building, Jingyan Hotel, No.29 Shijingshan Road, Shijingshan District, Beijing (the “Domestic Changyou”, collectively with the Overseas Changyou, the “Changyou”);
- (3) Baina Inc., a company with limited liability established under the laws of the British Virgin Islands with its registered address at Coastal Building, Wickham’s Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands (“Baina Inc.”);
- (4) Mr. Yongzhi Yang, a citizen with ID card No. \* and domiciled at \* (the “Founder”);
- (5) MoboTap Inc., an exempted company established and validly subsisting under the laws of Cayman with its registered address at P.O. Box 613 GT, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands (the “Company”);
- (6) MoboTap Inc. Limited, a company with limited liability established and validly subsisting under the laws of Hong Kong with its registered address at Room C, 21/F., CMA Building, No.64 Connaught Road, Central, Hong Kong (the “Hong Kong Subsidiary”);
- (7) MoboTap Inc., a company established and validly subsisting under the Laws of California, the United States with its registered address at Delaware Corporations LLC, 800 Delaware Ave., the City of Wilmington, County of New Castle, Delaware 19801 (the “US Subsidiary”)
- (8) Baina Zhiyuan (Chengdu) Science Co., Ltd., a company with limited liability established and effectively subsisting under the laws of China with its registered address at Rooms 102-112, 1/F, Building No.1, Zone A, Tianfu Software Park, No. 765 Middle Tianfu Avenue, Chengdu Hi-tech Zone, Sichuan (“Baina Zhiyuan (Chengdu)”);
- (9) Baina Zhiyuan (Beijing) Technology Co., Ltd., a company with limited liability established and validly subsisting under the laws of China with its registered address at South 2-1-6, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing (“Baina Zhiyuan (Beijing)”);
- (10) Beijing Baina Information Technology Co., Ltd., a company with limited liability established and validly subsisting under the laws of China with its registered address at South 2-1-7, Block A, # 1 Plant, No.5 A Xueyuan Road, Haidian District, Beijing (“Beijing Baina”);

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

- (11) Baina (Wuhan) Information Technology Co., Ltd., a company with limited liability established and validly subsisting under the laws of China with its registered address at 3/F, Building A2, Phase 1 Jinronggang, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan (“Baina Wuhan”);
- (12) Chengdu Xingyu Science and Technology Co., Ltd., a company with limited liability established and validly subsisting under the laws of China with its registered address at No.39, 6/F, Unit 2, Building 1, No.222 Tianren Road, Hi-tech Zone, Chengdu (“Chengdu Xingyu”);
- (13) Wuhan Xingyu Science and Technology Co., Ltd., a company with limited liability established and validly subsisting under the laws of China with its registered address at Room 2, 5/F, Building 1, Phase 3 Guannan Fuxing Medicine Park, No.58 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan (“Wuhan Xingyu”);
- (14) Wuhan Hualian Chuangke Science and Technology Co., Ltd., a company with limited liability established and validly subsisting under the laws of China with its registered address at Room 401, Block A, 3 # Building, SBI Venture Street, Dongxin Road, East Lake High-tech Development Zone, Wuhan (“Hualian Chuangke”);
- (15) Beijing Anzhuoxing Science and Technology Co., Ltd., a company with limited liability established and validly subsisting under the laws of China with its registered address at Room 4037, Huaqingyuan Hotel 1A, 1B and 1C, Building 13, Huaqingjia Park, Dongsheng Zone, Wudaokou, Haidian District, Beijing (“An Zhuoxing”);

The Hong Kong Subsidiary and the US Subsidiary are referred to collectively as the “Overseas Subsidiaries”; Baina Zhiyuan (Chengdu), Baina Zhiyuan (Beijing), Beijing Baina, Baina Wuhan, Chengdu Xingyu, Wuhan Xingyu, Hualian Chuangke and Anzhuoxing are referred to collectively as “Domestic Subsidiaries”. The parties above are referred to collectively herein as the “Parties”, and severally as “either Party”.

Whereas:

- (1) According to the Investment Agreement executed by Changyou, Baina Inc., Forest Group Investments Limited, Matrix Partners China II Hong Kong Limited, Sequoia Capital 2010 CV Holdco, Ltd., QUALCOMM Incorporated, founder shareholders, Youyang Xie, Na Zeng, the Company, Overseas Subsidiaries, Dolphin Browser Inc., Muse Entertainment Limited, Dstore Technology Limited, Domestic Subsidiaries and Shanghai Andepurui Network Science and Technology Co., Ltd. on July 16, 2014 (the “Investment Agreement”) and two copies of the Equity Transfer Agreement executed by Domestic Changyou and founder shareholders, Youyang Xie and Na Zeng on July 16, 2014:
  - (i) Overseas Changyou agrees to obtain from Baina Inc., Forest Group Investments Limited, Matrix Partners China II Hong Kong Limited, Sequoia Capital 2010 CV Holdco, Ltd and QUALCOMM Incorporated, and Baina Inc., Forest Group Investments Limited, Matrix Partners China II Hong Kong Limited, Sequoia Capital 2010 CV Holdco, Ltd and QUALCOMM Incorporated agree to transfer to Overseas Changyou 62,500,000 Series A preferred shares, 8,118,560 Series A-1 preferred shares and 67,396,906 ordinary shares of the Company held by them in total;

(ii) Domestic Changyou agrees to obtain from founder, Zhou Yu and Sen Li, and founder, Zhou Yu and Sen Li agree to transfer to Domestic Changyou 60% equities of Baina Wuhan held by them in total; and

(iii) Domestic Changyou agrees to obtain from founder shareholders, Youyang Xie and Na Zeng, and founder shareholders, Youyang Xie and Na Zeng agree to transfer to Domestic Changyou 60% equities of Beijing Baina held by them in total.

- (2) All the Parties agree to conclude the Agreement, which specifies the relations between Overseas Changyou and Baina Inc. as a shareholder of the Company as well as between Domestic Changyou and founder as shareholders of Baina Wuhan and Beijing Baina, and reach a consensus about the management and operations of all group companies.
- (3) The Company, Overseas Subsidiaries and Domestic Subsidiaries agree to joint in the Agreement to confirm clauses hereof, and confirm to comply with provisions hereof relating to the Company, Overseas Subsidiaries and Domestic Subsidiaries.

To witness hereof, all parties conclude the following clauses upon negotiation:

1 Definitions and Interpretations

1.1 Definitions

For the purpose of the Agreement, unless the context otherwise requires, the capitalized terms shall have the meanings ascribed to them in Appendix I. Unless otherwise defined in Appendix , the capitalized terms shall have the meanings ascribed to them in the Investment Agreement.

1.2 Interpretations

- (a) Any reference to the Agreement includes the appendices or attachments constituting an integral part hereof. Terms “hereof”, “hereunder” and “herein” and the expressions with similar meanings refer to the entire agreement, rather than any certain clauses, schedules, appendices or attachments hereof. Any reference to any document (including the Agreement) refers to the document as revised, incorporated, supplemented, updated or replaced from time to time. Unless otherwise explicitly stated, (i) any reference to any appendices or attachments refers to the appropriate appendices or attachments to the Agreement, and (ii) any reference to any clauses refers to corresponding ones in the body of the Agreement.
- (b) For the purpose of the Agreement, “including” shall be deemed as being followed by “without limitation” when used.
- (c) Any reference to any party to the Agreement or any other agreements or documents shall include such party’s successors or permitted assignees.
- (d) Any reference to the “person” includes natural persons, firms, companies, government authorities, associated projects, partnerships, associations, unincorporated organizations, trust, corporations, or other entities (whether or not they have independent legal status).

2 Shareholding Ratios of Shareholders

2.1 As at the closing date, the Company has issued 200,000,000 ordinary shares, 62,500,000 Series A preferred shares and 8,118,560 Series A-1 preferred shares.

2.2 According to the Investment Agreement, the shareholding ratios of all shareholders at the Company as at the closing date are as follows:

- (a) Overseas Changyou holds 67,396,906 ordinary shares, 62,500,000 Series A preferred shares and 8,118,560 Series A-1 preferred shares of the Company, with the shareholding ratio at the Company of 51%; Changyou also holds the convertible bonds of the Company, and records the shareholding ratio at the Company of 60% after conversion (on the basis of full dilution, including equity securities issued under any existing employee stock option plan).

(b) Baina Inc. holds 132,603,094 ordinary shares of the Company, with the shareholding ratio at the Company of 49% (on the basis of full dilution, including equity securities issued under any existing employee stock option plan).

2.3 According to the Investment Agreement, the shareholding ratios of all shareholders at Baina Wuhan as at the closing date are as follows:

(a) Domestic Changyou holds 60% of equities of Baina Wuhan.

(b) Founder holds 40% of equities of Baina Wuhan.

2.4 According to the Investment Agreement, the shareholding ratios of all shareholders at Beijing Baina as at the closing date are as follows:

(a) Domestic Changyou holds 60% of equities of Beijing Baina.

(b) Founder holds 40% of equities of Beijing Baina.

### 3 Corporate Businesses

3.1 Save as approved by over 50% of voting rights held by shareholders, the group businesses shall be limited to the development and operation of Dolphin Browser – a kind of browser of smartphones and other products favourable to user experience and business mode of Dolphin Browser of smartphones (the “Group Businesses”).

3.2 The Group Businesses shall maximize interests of the group, and the group shall make utmost efforts to maintain, improve and expand the Group Businesses in a way suitable for approved business plans.

3.3 All the Parties agree that rights of the group companies shall be subject to the Agreement and articles of association of the group companies. Shareholders and the group companies agree to conform to provisions relating to them hereunder, and all clauses of the articles of association are compulsorily enforceable for the group companies and shareholders thereof.

3.4 Save as approved by over 50% of voting rights held by shareholders of the Company, all shares and/or equity interests of subsidiaries of the Company are held and/or controlled by the Company (directly or indirectly).

### 4 Listing Supports and Business Assistances

Changyou agrees to make utmost efforts to provide the group with its promotion resources in order to leverage advantages of all the Parties, give full play to integration effects, and support the eligible listing of the Company or any related party thereof in the US or Hong Kong.

### 5 Board of Shareholders

5.1 The Company, Baina Wuhan and Beijing Baina set the board of shareholders. Shareholders exercise their voting rights in proportion to shares and/or equities held by them at the shareholders’ meeting.

5.2 Save as otherwise stipulated by any applicable law, the following matters relating to the Company shall come into effect after being approved by over 2/3 shareholders (including Baina Inc.) holding issued shares of the Company:

(i) increasing or decreasing the share capital of the Company;

(ii) merger, division and transformation of the Company;

- (iii) dissolution and liquidation of the Company, recapitalization or restructuring in any form (including any adjustment to the employee stock option plan specified in Article 13 thereof), or any matter resulting in the change of right of control;
- (iv) authorization or issue of shares or series of shares of any classes or convertible securities or other securities (including the employee stock option plan);
- (v) amendment of the Articles of Association of the Company; and
- (vi) change in the number of members of the board of directors of the Company;

**5.3** Save as otherwise stipulated by any applicable laws and the Agreement, if the shareholders' meeting makes any resolution about any other deliberated matter according to the articles of association of the Company, Baina Wuhan and Beijing Baina, the said resolution shall come into effect after being approved by shareholders holding over 50% of issued shares or with the ratio of contribution more than 50%.

**5.4** Each meeting of the board of shareholders (no matter whether regular or extraordinary) shall be notified by the chairman to every shareholder in writing or by e-mail at least ten (10) business days before the convention of the said meeting, with the date, time and place of the meeting specified (the "Meeting Notice"). If all shareholders agree about a shorter notice period, a meeting to which the said shorter notice period applies shall be deemed as being convened properly.

**5.5** If any shareholder cannot attend a shareholders' meeting for any reason, he shall entrust an agent in writing to attend the shareholders' meeting before the convention time of the meeting specified in the Meeting Notice, and the agent may exercise the powers specified in the power of attorney.

**5.6** Shareholders may attend a shareholders' meeting by phone, video or similar communication equipment. The board of shareholders may hold a meeting by any of the aforesaid means, only if present shareholders can listen to speeches mutually, that is, shareholders can attend the meeting.

**5.7** A written resolution signed by all shareholders holding shares with rights of attending a general meeting and voting shall be deemed as having the same force as a resolution passed at a shareholders' meeting properly convened. Any shareholder shall approve or deny the said written resolution within ten (10) business days after receiving the written resolution proposed by the board of directors.

**5.8** The chairman shall be the president of a shareholders' meeting. If the chairman is absent from the meeting, or fails or rejects to fulfil his duties, the present shareholder holding most shares shall have the right to appoint a president to fulfil corresponding duties at the meeting.

## 6 Board of Directors

### 6.1 Setting

The Company, Overseas Subsidiaries and Domestic Subsidiaries set the board of directors, which is responsible for the comprehensive guidance, supervision, management and strategies of the Company.



## 6.2 Composition of the board of directors

- (a) The board of directors of the Company, Overseas Subsidiaries, Baina Zhiyuan (Chengdu) and Baina Zhiyuan (Beijing) are composed of five (5) directors respectively, with three (3) appointed or nominated by Overseas Changyou and two (2) by Baina Inc. The board of directors of Beijing Baina and Baina Wuhan shall be composed of five (5) directors respectively, with three (3) nominated by Domestic Changyou and two (2) by other shareholders of Beijing Baina and Baina Wuhan.
- (b) The Company, Overseas Subsidiaries, Baina Zhiyuan (Chengdu) and Baina Zhiyuan (Beijing) set one (1) chairman respectively, who is directly appointed or nominated by Overseas Changyou. Beijing Baina and Baina Wuhan set one (1) chairman, who is nominated by Domestic Changyou.
- (c) Director candidate: any director may notify in writing all group companies of his appointment of any person (probably a director of the Company) as his candidate at any time, upon approved by the shareholder appointing or nominate him in writing. When handling matters as a director candidate, the said candidate has all rights, privileges and powers of the director appointing him, subject to all provisions relating to directors of the articles of association of the group companies and the Agreement. Any director may send a written notice of termination of his appointment of director candidate to the group companies and the shareholder appoint or nominating him at any time.
- (d) Shareholders undertake to ensure the realization of rights of appointment and nomination of directors set out in Article 6.2 hereof by means of casting an affirmative vote or signing a written resolution of shareholders at a shareholders' meeting. Upon approval by all shareholders, the composition of the board of directors under Article 6.2 hereof may be changed.

## 6.3 Directors' meeting and quorum

- (a) Directors' meeting shall be convened once a quarter at least. An extraordinary directors' meeting may be convened upon written proposal by two (2) directors. Save as otherwise stipulated by any applicable laws, if a resolution is made at a directors' meeting, the said resolution can be passed only after being approved by over 50% of directors present at the directors' meeting.
- (b) To reach the quorum of the board of directors, at least three (3) directors (in terms of the Company, including a director appointed by Baina Inc. at least) shall attend a directors' meeting in person or entrust their director candidates to do that. If the number of present directors falls short of the quorum, the resolution passed at the directors' meeting shall be ineffective.
- (c) In terms of the Company, if the number of directors present at a directors' meeting falls short of the quorum within half an hour after the convention time of the said meeting or during the said meeting, present directors may postpone the meeting and hold it at the same time and venue five (5) business days after the original date, and send an adjournment notice to all directors. If the number of directors present at the adjournment still fall s short of the quorum within half an hour after the convention time of the adjournment or during the adjournment, save as otherwise stipulated hereunder, the number of directors present at the adjournment (at least three (3) ones) shall be deemed as reaching the quorum, and any resolution passed by all directors present at the adjournment shall be deemed as legal and effective.

- (d) The notice, agenda and relevant materials of the directors' meeting shall be delivered to all directors at least ten (10) business days before the convention of the meeting. The Meeting Notice shall specify the date, time, place and agenda of the meeting as well as relevant materials. If all directors agree about a shorter notice period, a meeting to which the said shorter notice period applies shall be deemed as being convened properly. Save as passed by the board of directors, the agenda in the notice delivered to all directors shall not be changed or increased.
- (e) Directors may attend in person or entrust director candidates thereof to attend a directors' meeting and vote.
- (f) Directors may attend a directors' meeting by phone, video or similar communication equipment. The board of directors may hold a meeting by any of the aforesaid means, only if present directors can listen to speeches mutually, that is, directors can attend the meeting.
- (g) A written resolution signed by all directors shall be deemed as having the same force as a resolution passed at a directors' meeting properly convened. Any director shall approve or deny the said written resolution within ten (10) business days after receiving the written resolution proposed by the group companies.
- (h) Subject to the duty of good faith and compliance with any applicable laws, directors may notify the shareholders and the group companies appointing or nominating them of all material matters relating to businesses and events of the group companies, and every shareholder receiving the said information hereby undertakes and agrees to keep the information confidential.

## 7 Board of Directors and Management of the Group

7.1 Every directors' meeting of the group companies shall conform to the provisions of Articles 6 and 8 hereof.

7.2 Changyou will fully respect the specialty and management capability of existing management teams of the group companies, unless the existing management of any group company seriously breaches laws, violates regulations or involves in any other circumstance usually unacceptable to Changyou as a listed company. Changyou hereby agrees that: (1) the stability of existing managements of the group companies will be maintained after the closing date; and, (2) the first CEO of the group companies will be Yongzhi Yang after the closing date, who will be appointed by means of the resolution of the board of directors of the group companies, with the term of office of three years (the "Initial Term of Office"). Upon maturity of the Initial Term of Office, the CEO shall be determined by means of resolution of the board of directors; however, the aforesaid agreements shall not affect the normal decision of the board of shareholders and the board of directors of the group companies, rights of Changyou at the board of shareholders and the board of directors, as well as the right of control of Changyou at the group companies.

**7.3** The board of directors of the group companies shall have the right to appoint the management and senior executives of the group companies, except that (i) any legal representative of Domestic Subsidiaries shall be appointed by any shareholder or the board of shareholders according to Chinese laws, and (ii) Changyou shall have the right to nominate one (1) chief financial officer of the group companies respectively, who is responsible for the management of financial accounting of the group companies respectively.

**7.4** Save as otherwise stipulated by any applicable laws, the board of directors and management of the group companies have the examination and approval authorities set out in Appendix IV, and the group companies shall amend the articles of association within the scope allowed by the applicable laws in order to realize such authorities.

## 8 Continual Obligation

**8.1** The board of directors shall be responsible for deciding and implementing all policies of the group companies. All shareholders shall exercise all of their voting rights and other rights relating to the group companies, and cause directors appointed or nominated by them to exercise their rights so as to fully follow clauses hereof.

**8.2** Subject to the applicable laws, all the Parties shall amend the memorandum and articles of association so that they include all clauses hereof. If there is any inconsistency between the Agreement and the memorandum and/or the articles of association, all the Parties shall take necessary measures to amend the articles of association so that the Agreement is consistent with the articles of association.

## 9 Transfer Restrictions, Right of First Refusal, Right of Preemption and Compliance Deed

### 9.1 Transfer restrictions

**9.1.1** Before the eligible listing of the Company, except the circumstances allowed by Articles 9.2, 9.3, 9.4 and 13 hereof or Baina Inc. selling options according to Article 10.2 hereof, if Overseas Changyou intends to conduct the following actions for the Company, it shall obtain the written consent of Baina Inc. in advance (except the behaviors conducted by Overseas Changyou for any related party thereof, including but not limited to transferring shares of the Company to any controlled subsidiaries with 50% or more of shares directly or indirectly held by Overseas Changyou); if any other shareholder (including Baina Inc.) of the Company conducts the following behaviors for the Company, it shall obtain the written consent of Overseas Changyou:

- (a) mortgaging (no matter whether in fixed or floating charge way), pledging, setting any option, rights, equities or encumbrances in any other way for the statutory or beneficial interests of all or any shares of the Company held by it;
- (b) selling, transferring or disposing in any other way of all or any shares of the Company held by it or any statutory or beneficial interests stipulated hereunder, or transferring or disposing of any equities stipulated hereunder;
- (c) signing any agreement about all or part of shares of the Company held by it and voting rights thereof;

- (d) setting any options, rights, equities or encumbrances for shares and/or equities of the Company; or
- (e) agreeing about the aforesaid matters (no matter whether conditional or not).

## 9.2 Right of first refusal

- (a) All the Parties agree that after the closing date, they cannot issue shares to other persons, if the Company, Beijing Baina or Baina Wuhan increases capital. However, (1) upon approval by shareholders according to Article 5.2 and (2) subject to the requirements of Article 9.2 hereof, Changyou, Baina Inc. and founder have the right of pre-emption for the shares issued for capital increase (the “Capital Increase Shares”) according to the following subscription proportions.
  - (i) In terms of the Company, the subscription proportion of Overseas Changyou or Baina Inc. is the number of shares of the Company held by Overseas Changyou or Baina Inc. (as the case may be) (on the basis of full dilution and conversion) / total number of shares of the Company held by Overseas Changyou and Baina Inc.;
  - (ii) In terms of Beijing Baina, the subscription proportions of Domestic Changyou or founder is the contribution of Domestic Changyou or founder (as the case may be) to Beijing Baina / total contributions of Domestic Changyou and founder to Beijing Baina; and
  - (iii) In terms of Baina Wuhan, the subscription proportions of Domestic Changyou or founder is the contribution of Domestic Changyou or founder (as the case may be) to Baina Wuhan / total contributions of Domestic Changyou and founder to Baina Wuhan.
- (b) All the Parties agree that if the board of directors reasonably thinks that it is necessary to increase issued shares for business requirements of the Company, Beijing Baina or Baina Wuhan, they shall send a notice to Changyou and relevant shareholders (the “Capital Increase Notice”), which specifies:
  - (i) the number of Capital Increase Shares;
  - (ii) the subscription price of Capital Increase Shares; and
  - (iii) the number of shares which can be subscribed by Changyou and relevant shareholders according to Article 9.2.1.

- (c) Within thirty (30) days after receiving the Capital Increase Notice, Changyou and relevant shareholders shall send a notice of capital increase subscription (the “Notice of Capital Increase Subscription”), which specifies the number of shares they are willing to subscribe at the subscription price set out in the Capital Increase Notice. Changyou and/or relevant shareholders shall send the Notice of Capital Increase Subscription to the Company, Beijing Baina or Baina Wuhan, and copy it to the other party. If Changyou and/or relevant shareholders do not send the Notice of Capital Increase Subscription within thirty (30) days after receiving the Capital Increase Notice, they will be deemed as having waived the right of first refusal thereof. If either of Changyou and relevant shareholders does not fully subscribe the shares which can be subscribed according to Article 9.2.1 hereof, the other party may send a notice of supplementary capital increase subscription (the “Notice of Supplementary Capital Increase Subscription”) within ten (10) days after receiving the Notice of Capital Increase Subscription of the party to subscribe remaining shares to be subscribed. If Changyou and/or relevant shareholders do not send the Notice of Supplementary Capital Increase Subscription within ten (10) days after receiving the Notice of Capital Increase Subscription of the other party, they will be deemed as having waived the right of first refusal thereof.
- (d) Upon expiration of the period of ten (10) days specified in Article 9.2.3, the Company, Beijing Baina or Baina Wuhan shall have a hundred and twenty (120) days to sell any to-be-issued shares not subscribed by shareholders to any other person according to terms and conditions not more favourable than those provided for shareholders. If the Company, Beijing Baina or Baina Wuhan fails to complete the issue within a hundred and twenty (120) days, the Company shall conduct another intentional issue after being approved according to Article 9.2 hereof again.
- (e) The value of assessment of the Company, Beijing Baina or Baina Wuhan of shares issued by the Company, Beijing Baina or Baina Wuhan to any third party other than Changyou (the “New Investor”) shall not be lower than that of the Company, Beijing Baina or Baina Wuhan when Changyou becomes a shareholder of the Company, Beijing Baina or Baina Wuhan. Otherwise, Changyou shall have the right to require the Company, Beijing Baina, Baina Wuhan and founder to dispose in any of the following ways:
- (i) increasing shares or equities of the Company, Beijing Baina and Baina Wuhan held by Changyou at that time, the Company issuing additional ordinary shares to Overseas Changyou at the nominal price or freely, and/or founder transferring equities of Beijing Baina and/or Baina Wuhan to Domestic Changyou at the nominal price, so that the value of assessment of actual investment after Changyou holds more shares or equities can be reduced to the value of assessment on which the price of to-be-issued shares of the Company, Beijing Baina and Baina Wuhan subscribed by the New Investor is based.
  - (ii) adjusting the conversion price of convertible bonds to increase the number of shares of the Company to be obtained after the conversion of such bonds, so that the value of assessment of actual investment of Changyou is reduced to the value of assessment on which the price of to-be-issued shares of the Company, Beijing Baina and Baina Wuhan subscribed by the New Investor is based.
- (f) If Beijing Baina and Baina Wuhan increase registered capital thereof, the equities corresponding to the additional registered capital shall be effectively controlled by Baina Zhiyuan (Beijing) under a corresponding control agreement.

### 9.3 Right of preemption

- (a) Under the same conditions, Changyou or any related party thereof shall have the right of pre-emption for the shares of the Company, Beijing Baina and Baina Wuhan (the “To-be-transferred Shares”) to be transferred by relevant shareholder to any person (the “Assignee”).
- (b) Before relevant shareholder transfers any To-be-transferred Shares, a written notice (the “Transfer Notice”) shall be sent to Changyou, and specify: (a) the number of To-be-transferred Shares; (b) transfer conditions of To-be-transferred Shares (the “Transfer Conditions”, including transfer price and other conditions); (c) the identity of Assignee; and (d) no withdrawal or revocation of the said notice.
- (c) Changyou shall send a written notice (the “Assignment Notice”) to relevant shareholder within thirty (30) days after receiving the Transfer Notice specified in Article 9.3.2 hereof, which specifies the number of To-be-transferred Shares that Changyou or any related party hereof is willing to purchase according to the Transfer Conditions. If Changyou does not send the Assignment Notice to relevant shareholder within thirty (30) days after receiving the Transfer Notice, Changyou will be deemed as having waived the right of preemption thereof, save as otherwise agreed by relevant shareholder.
- (d) Relevant shareholder agree not to transfer any To-be-transferred Shares to the Assignee before Changyou has exercised or waived the right of pre-emption thereof set out in Article 9.3 hereof.
- (e) Upon expiration of the period of thirty (30) days specified in Article 9.3.3, relevant shareholder shall have a period of a hundred and twenty (120) days to sell any To-be-transferred Shares not purchased by Changyou to the Assignee according to terms and conditions not more favourable than those provided for Changyou. If relevant shareholder fails to complete the transfer within a hundred and twenty (120) days, relevant shareholder shall conduct another intentional transfer after being approved according to Article 9.3 hereof again.

### 9.4 Compliance deed

No matter how agreed upon by other clauses hereof, any shareholders and the Company shall not transfer shares of the Company, Beijing Baina and Baina Wuhan held by them, unless:

- (a) in terms of employee shareholders, employee shareholders with equities transferred to agree in writing to be subject to applicable terms and conditions hereunder by signing the compliance deed of employee shareholders with contents substantively consistent to the Appendix II hereto.
- (b) in terms of any other Assignee other than employee shareholders, the Assignee agrees in writing to be subject to applicable terms and conditions hereunder by signing the compliance deed of other assignees with contents substantively consistent to the Appendix III hereto.

- (c) the transfer conforms to other applicable clauses hereof in all aspects;
- (d) the transfer conforms to applicable laws in all aspects; and
- (e) In terms of transferred equities, assignor does not have any rights or obligations under the Agreement or other transaction documents.

10 Performance Guarantee and Sales of Options

- 10.1** According to agreements of all the Parties, without the written agreement of Overseas Changyou, before the eligible listing of the Company or any related party thereof, Baina Inc. ensures that the percentage of shares of the Company held by it at any time shall not be lower than 25%, and the percentage of shares of Baina Inc. held by the founder shall not be lower than 60.04% at any time.
- 10.2** According to Article 10.1, if till the time when the group achieve the following performance objectives (the “2016 Annual Objectives”), founder and key employees still work for the Company, but the Company or any related party thereof does not achieve eligible listing due to some uncontrollable market environment factors, Baina Inc. will have the right to sell options once, transferring some shares of the Company held by it to Overseas Changyou or any related party thereof with the transfer price = US\$351,400,000 X the percentage of the number of shares to be transferred by Baina Inc. in the total number of shares of the Company. For the avoidance of any doubt, in the condition that the percentage of shares of the Company held by Baina Inc. is not lower than 25%, the percentage of the number of shares of the Company which Baina Inc. has the right to transfer to Overseas Changyou or any related party thereof in this Article 10.2 in the total number of shares of the Company shall not exceed 15% (on the basis of full dilution and conversion):
- (a) The number of average monthly active users of smartphones of Dolphin Browser in the last 3 months of 2016 is not less than \* ;
  - (b) In the audited consolidated financial report of the Company in 2016 prepared in accordance with the US accounting standards, the revenue of the group in 2016 is not less than US\$ \* ;
  - (c) In the audited consolidated financial report of the Company in 2016 prepared in accordance with the US accounting standards, the business profits of the group in 2016 are not less than US\$ \* ;
  - (d) If the 2016 Annual Objectives are achieved due to manipulation or impact by any abnormal or improper means (e.g. self consumption, artificial flow control, and disturbance of flow calculation system), it will be deemed that the 2016 Annual Objectives are not achieved.
- 10.3** Within 60 days after the issue of audited consolidated financial report of the Company in 2016, Baina Inc. may send a notice of exercise of rights under Article 10.2 (the “Exercise Notice”) to Overseas Changyou. Baina Inc.:

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

- (a) within five (5) business days after the delivery of the Exercise Notice (the “Exercise Notice Period”), shall transfer the shares (not attached with any encumbrance) of the number specified in Article 10.2 to Changyou by submitting the share certificates of the number of to be transfer shares together with the formally signed transfer instrument meeting validation form and substantial requirements; or
- (b) if Overseas Changyou has an objection to whether the 2016 Annual Objectives are achieved, shall notify Baina Inc. in writing within the Exercise Notice Period to conduct amicably negotiation. If no consensus is reached within twenty (20) business days after the start of negotiation, Baina Inc. and Overseas Changyou shall have the right to submit the dispute to HKIAC for arbitration according to Article 20.3 hereof. For the avoidance of any doubt, if Overseas Changyou does not raise an objection in the Exercise Notice Period, it shall be deemed that Overseas Changyou has no objection to the identification of the 2016 Annual Objectives of Baina Inc., and shall fulfil obligations under assigned shares according to Item (a) of this clause.

11 Dividends or Bonuses

The Company takes eligible listing as its operation objective. Before achieving the objective, shareholders of the Company agree to cause the group companies not to distribute dividends or bonuses.

12 Investment before Eligible Listing

All the Parties agree that before eligible listing, Changyou has the right to purchase no less than 10% of shares of the Company or any related party thereof as listing body held by Baina Inc. or employees becoming shareholders of the Company under the employee stock option plan or at a price 20% lower than the lower limit of listed security price range.

13 Employee stock option plan

**13.1** All the Parties agree that the Company establishes the employee stock option plan to grant options to employees of the Company so that shares of the Company can be transferred to them when they exercise the options (the “Employee Stock Option Plan”). The Company will issue 10,000,000 ordinary shares in accordance with the Employee Stock Option Plan and Article 13 hereof, which account for 3.7% of all shares of the Company (on the basis of full dilution) and will be granted to employees of the Company as option shares. Additionally, at the time of closing, 17,478,093 ordinary shares of the Company held by Baina will be reserved for employees of the Company as option shares. If any employee granted with option shares or relevant options resigns before eligible listing, but such option shares have not been registered in the name of the said employee, the said options have not been exercised or the said option shares or relevant options are withdrawn pursuant to the Employee Stock Option Plan, Baina Inc. will have the right to dispose of the part of such option shares by itself, including granting them to other employees or cancelling reservation pursuant to the Employee Stock Option Plan.

**13.2** All the Parties agree that the board of directors of the Company may decide the procedures and contents of the Employee Stock Option Plan and employees participating in the Employee Stock Option Plan and the number of granted options (including corresponding option shares). According to Article 9.3 hereof, employees may exercise options with exercise rights obtained, and receive corresponding option shares from the Company pursuant to the Employee Stock Option Plan.



14 Preferred Liquidation Return

According to applicable laws, if the Company is terminated, deregistered or dissolved or any matter resulting in the liquidation of the Company (the "Liquidation Event") occurs, Overseas Changyou shall have the priority to obtain a sum of liquidation return amount (the "Preferred Liquidation Return Amount") after the Company pays any liquidation expenses and any debts according to applicable laws. With regard to ordinary shares of the Company held by it, the Preferred Liquidation Return Amount equals 100% of consideration of ordinary shares. If the Liquidation Event occurs to the Company, the amount which Overseas Changyou can obtain for ordinary shares of the Company held by it is lower than 100% of the consideration of ordinary shares, Baina Inc. and employee shareholders (if applicable) will agree and freely transfer all or part of assets which they have the right to obtain (for the avoidance of any doubt, except salaries, social insurance premiums, rewards and welfares which employee shareholders as employees have the right to obtain according to labor contract), so that at the time of termination or dissolution of the Company, Overseas Changyou can obtain assets equal to 100% of the consideration of ordinary shares for the ordinary shares held by it. Overseas Changyou hereby agrees to accept the transfer. With regard to the preferred shares of the Company held by Overseas Changyou, the Preferred Liquidation Return Amount equals 120% of the consideration of ordinary shares. After obtaining the Preferred Liquidation Return Amount, Overseas Changyou may obtain the remaining assets distributed according to shareholding percentages together with other shareholders.

15 Preferred Investment Option

15.1 If the Liquidation Event occurs to the Company, and Overseas Changyou does not fully recover the Preferred Liquidation Return Amount, the founder shall grant Changyou the priority over any other person to invest in any new business conducted by any key employee within 3 years after the Liquidation Event in any form, provided that the key employee is the largest shareholder in the said new business. The founder shall cause the key employee to notify Changyou in writing before conducting the said business, and cause the business subject (legal person or not legal person) controlled by the key employee to ensure the priority of investment of Changyou can be exercised.

16 Non-Competition and No Persuasion

16.1 Founder shareholders and any employee shareholders with the percentage of option shares of the Company held by them respectively or the percentage of shares of the Company held by them respectively after exercising their options not lower than 0.5% (the "Important Employee Shareholders") hereby undertake to Changyou and the Company that,

- (a) in terms of founder shareholders, within two years after the closing date or the time when they resigns from the group companies or cease being shareholders of the group companies (whichever is the later);
- (b) in terms of Important Employee Shareholders, within two years after they resigns from the group companies after obtaining the option shares of the Company according to Article 13 hereof or the date when the percentage of shares of the Company held by them becomes lower than 0.5% (whichever is the later),

they will not (and will ensure that any related parties thereof (except the group companies) and key employees will not) conduct any businesses or activities (including research, development, marketing, promotion, provision of services and licensing) the same as or similar to the existing businesses of Changyou as at the closing date or group businesses (the "Restricted Businesses") or hold any rights or interests in such businesses or activities directly or indirectly, independently or together with any other party, or by establishing any other business entity to do so directly or indirectly, independently or together with any other party.

**16.2** Founder shareholders and Important Employee Shareholders undertake to Changyou and the Company that,

- (a) in terms of founder shareholders, within two years after the closing date or the time when they resigns from the group companies or cease being shareholders of the group companies (whichever is the later);
- (b) in terms of Important Employee Shareholders, within two years after they resigns from the group companies after obtaining the option shares of the Company according to Article 13 hereof or the date when the percentage of shares of the Company held by them becomes lower than 0.5% (whichever is the later),

they will not (and will ensure that any related parties thereof (except the group companies) will not) employ any employees or former employees of the group companies, or persuade any employees or former employees of the group companies, Changyou or any related party of Changyou to conduct the Restricted Businesses in any form, no matter whether directly or indirectly.

**16.3** If any part of this article is identified as invalid, illegal or enforceable in any respect for any reason, the invalidity, illegality or enforceability shall not affect the force of other part of this article, and the article shall be interpreted as such invalid, illegal or enforceable part has never been included in this article. In this case, Article 20.8 shall apply. Relevant shareholders and employee shareholders confirm that Changyou and the Company will suffer irreversible damages due to any violation of this article, and any compensations and reliefs for damages are inadequate to indemnify the losses suffered by Changyou and/or the Company due to such violation. Relevant shareholders and employee shareholders agree that Changyou and the Company have the right to exercise injunctive relief and require relevant shareholders and employee shareholders to actually perform Article 16, and Relevant shareholders and employee shareholders agree upon the exercise of such rights.

**16.4** For the avoidance of any doubt, any related party of relevant shareholders and/or employee shareholders (except the group companies) which violates any agreement in Article 16 shall be deemed as the violation of relevant shareholders and/or employee shareholders.

**16.5** If relevant shareholders and/or employee shareholders violate any agreement in Article 16, they shall be identified as having severely violated the Agreement, Changyou and the Company will have the right to require relevant shareholders or employee shareholders to pay forfeits, calculated by US\$50,000 for each violation or the total amount of losses suffered by Changyou (whichever is the higher). Relevant shareholders or employee shareholders shall remit such amount to the bank account designated by Changyou and the Company as soon as possible, but in any case, the time of remittance shall not be later than ten (10) business days after relevant shareholders or employee shareholders receive the notice of requirement for such payment from Changyou and/or the Company. All the Parties confirm and agree that such amount is the true estimation of losses probably incurred by relevant violation as well as the supplementation to any other rights or reliefs which Changyou and the Company may obtain according to laws or any contract, and in any case, shall not replace or reduce any other rights or reliefs which Changyou and the Company may obtain according to laws or any contract.

**17** Representation and undertaking

All the Parties respectively make the following representations, warranties and undertakings to other Parties severally and not jointly:

**17.1** Establishment, capacity for act, good credit and qualifications

In terms of legal persons, all the Parties (1) are the companies with limited liability established and validly subsisting under applicable laws, with good credit, and having obtained all consents of relevant governmental agencies (if necessary); (2) have all necessary powers and authorities to own and operate their properties and conduct businesses, execute, deliver and perform the Agreement and complete the transactions contemplated hereunder; (3) have proper qualifications to conduct business transactions respectively, all licenses and qualifications necessary for the operation of such businesses, as well as good credit within every jurisdiction which requires such qualifications; and (4) have been conforming to the applicable laws to conduct businesses as from their establishment.

In terms of natural persons, all the Parties (1) are subjects with full capacity for civil conduct; and (2) have all necessary powers to execute, deliver and perform the Agreement and complete the transactions contemplated hereunder.

**17.2** Authorization

- (a) All the Parties have taken all necessary actions so that they can authorize, execute and deliver the Agreement and fulfil their obligations hereunder. The Agreement specifies effective and legally binding obligations, which shall be implemented according to clauses hereof.
- (b) It is unnecessary all the Parties to obtain any consent from any person other than consents obtained as at the closing date for the execution, delivery or performance of the Agreement or completion of transactions contemplated hereunder.

**17.3** No violation

The execution, delivery and performance of the Agreement or completion of transactions contemplated hereunder of all the Parties will not (i) conflict with any applicable laws; (ii) violate any clause of any contract, generate any right to terminate, cancel or bring forward any rights or obligations of all the Parties under any clause of any contract, incur the loss of any interests to all the Parties under any clause of any contract, or result in the increase in the currently effective interest rate of any debts of all the Parties; or (iii) incur any encumbrance to any properties or assets of all the Parties (save as definitely agreed by all the Parties in transaction documents).

#### **17.4** Insolvency

All the Parties do not and have no reason to believe that they will be insolvent or cannot pay mature debts according to applicable laws in expectable future. All the Parties do not and have no reason to believe that in expectable future, there will be any legal procedures relating to compromise or arrangement with creditors, any liquidation, bankruptcy or other dissolution procedures relating to all the Parties. To the knowledge of all the Parties, there is not any event probably triggering such legal procedures according to applicable laws at present.

#### **18** Termination

##### **18.1** Period and termination of the Agreement

The Agreement shall come into effect as from the closing date, and be valid continually, except for termination in any of the following circumstances:

- (a) All the Parties agree to terminate the Agreement in advance upon negotiation;
- (b) The Company is dissolved; or
- (c) In terms of every shareholder, all of his shares are sold.

##### **18.2** Termination effect

Except for the circumstances specified in Article 18.3 below, if the Agreement is terminated according to Article 18.1 or applicable laws, the Agreement will no longer be valid, but all the Parties shall not be exempted from any liabilities arising from the breach hereof or any misstatements and such termination shall not be deemed as a waiver of any available relief for such breach or any untrue statement (including actual performance, if available).

##### **18.3** Survival

The provisions of Articles 18, 19 and 20 shall survive the termination of the Agreement.

#### **19** Confidentiality

##### **19.1** Confidentiality obligation

Each Party to the Agreement shall strictly keep confidential the information contained in the Agreement or any information obtained or secured by negotiation and/or entry into the Agreement, including any information relating to the following matters and shall not disclose or use:

- (a) the existence and terms of the Agreement;
- (b) negotiation relating to the Agreement; and
- (c) Any business activities conducted by either Party to the Agreement, the said party or any related party thereof.

## 19.2 Allowed disclosure

However, under the following cases, this Article 19.1 shall not prohibit the disclosure or use of any information within the following ranges:

- (a) The disclosure or use is required by any applicable laws, any rules of the exchange on which shares of either Party are listed, or any governmental agency, but the Party concerned shall notify the other Party of such requirement in time so that the other Party has a chance to raise an objection to such disclosure or use, if any; or negotiate with the other Party about the time and contents of such disclosure or use;
- (b) the disclosure or use required by any legal proceedings as a result of the Agreement or any other agreements entered into hereunder or pursuant to the Agreement or the disclosure that is related to the tax affairs of the disclosing party and made to the tax authorities;
- (c) any disclosure made to any party's representatives who need know such information for any purpose of the Agreement or the completion of the transaction contemplated under the agreement entered into according to the Agreement; provided, however, such representatives undertake to abide by Article 19.1, as if it is a party to the Agreement.
- (d) such information can be obtained from public sources (unless that the case is due to any violation of the confidentiality agreement (if any) or the Agreement); or
- (e) The other Parties previously consent in writing to the disclosure or use.

## 20 General Provisions

### 20.1 Binding force; transfer

The Agreement shall be binding upon and enforceable against all the Parties, successors and permitted assignees thereof. Without the prior written approval of the other Parties, either Party may not transfer any of its rights or obligations under the Agreement, but Changyou has the right, without the prior consent of the other Parties, to transfer all or part of its rights under the Agreement to any of its related parties.

### 20.2 Governing Laws

The Agreement shall be governed by and construed in accordance with the laws of Hong Kong.

### 20.3 Settlement of disputes

- (a) Any dispute, controversy or request arising from or relating to the Agreement or the interpretation, breach, termination or validity hereof (each, a "Dispute") shall be firstly resolved by the Parties through consultations. Negotiations shall begin immediately after the written notice requiring negotiations is sent by any Party to any other Parties.
- (b) If the Dispute fails to be resolved within sixty (60) days as of the notice, the Dispute shall be submitted to arbitration after any party involved in the Dispute sends notice (the "Notice of Arbitration") to other Parties for arbitration.

- (c) The Dispute shall be submitted to the Hong Kong International Arbitration Centre (“HKIAC”) for arbitration in Hong Kong. There shall be three (3) arbitrators appointed in accordance with the HKIAC arbitration rules then in effect (the “Arbitration Rules”), unless otherwise expressly provided in this Article 20.3.3. Changyou shall appoint one arbitrator; other shareholders shall jointly appoint an arbitrator within ten (10) days after Changyou has appointed an arbitrator; if an arbitrator cannot be designated under the abovementioned conditions, the arbitrator shall be designated by HKIAC; the third arbitrator shall be the presiding arbitrator and shall be jointly appointed by the arbitrators of the parties within ten (10) days after the latter arbitrator is appointed. If it cannot be appointed under the above conditions, the arbitrator shall be specified by HKIAC.
- (d) Arbitration procedures shall be conducted in Chinese. The arbitral tribunal shall apply the Arbitration Rules.
- (e) The awards of the arbitral tribunal are final and binding upon all the Parties; the prevailing party may apply to a court of competent jurisdiction for enforcing the award.
- (f) Any Party to the Dispute shall have the right, if feasible, to seek a temporary injunction relief in any court having jurisdiction.
- (g) In the course of ruling the Dispute by the arbitral tribunal, except the part in Dispute to be ruled, the Agreement shall continue being performed.
- (h) Costs of arbitration (including any legal, accounting and other professional fees and expenses arising from the investigation, collection, prosecution and/or defense by the prevailing party for any request under the Dispute) shall be borne by the losing party in accordance with the ruling of the arbitration tribunal.

#### 20.4 Alternation

Save as otherwise allowed hereunder, any modification, alteration, waiver, cancellation or termination of the Agreement and its terms shall be made with a written document signed by each Party.

#### 20.5 Notice

(a) All notices, claims, certificates, requests, demands and other communications sent to any Party hereunder shall be made in writing and sent by personal delivery, facsimile or postage-prepaid form by reputable overnight courier service to the address or any other addresses that are listed in the following Article 20.5.2 of the Party and specified by the Party to all other Parties through notice. The abovementioned notices shall be deemed as served upon delivery in the case of personal delivery and upon the receipt of return in the case of sending by fax. In the event of overnight courier service, the notices shall be considered as been delivered within five (5) calendar days as of the post to the express company or collected by the express company.

(b) The notices hereunder shall be sent to the receivers and addresses of all the Parties listed below.

Glory Loop Limited (an overseas acquirer)

Address : P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands

Fax : +86 010-6192 0961

Attn. : Legal Department

Beijing Gamease Age Internet Technology Co., Ltd. (a domestic acquirer)

Address : 2/F, East Side Building, Jingyan Hotel, No.29 Shijingshan Road, Shijingshan District, Beijing

Fax : +86 010-6192 0961

Attn. : Legal Department

Baina Inc.

Address : 3/F, Building A2, Phase 1 Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan

Fax : +86 027-87782005-8056

Attn. : Tiefeng Liu

Mr. Yongzhi Yang

Address : 3/F, Building A2, Phase 1 Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan

Fax : +86 027-87782005-8056

MoboTap Inc. (Cayman)

Address : 3/F, Building A2, Phase 1 Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan

Fax : +86 027-87782005-8056

Attn. : Tiefeng Liu

MoboTap Inc. Limited

Address : 3/F, Building A2, Phase 1 Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan

Fax : +86 027-87782005-8056

Attn. : Tiefeng Liu

MoboTap Inc. (US)

Address : 665 3rd Street, Suite 150, San Francisco, CA 94107

Attn. : Tiefeng Liu

Baina Zhiyuan (Chengdu) Technology Co., Ltd.

Address : 15/F, Building G1, Zone G, Tianfu Software Park, No.1800 Yizhou Avenue, Hi-tech Zone, Chengdu, Sichuan

Attn. : Tiefeng Liu

Baina Zhiyuan (Beijing) Technology Co., Ltd.

Address : 2-1-3/F, South Block A, 768 Creative Park, No.5 A Xueyuan Road, Haidian District, Beijing

Attn. : Tiefeng Liu

Beijing Baina Information Technology Co., Ltd.

Address : 2-1-3/F, South Block A, 768 Creative Park, No.5 A Xueyuan Road, Haidian District, Beijing

Attn. : Tiefeng Liu

Baina (Wuhan) Information Technology Co., Ltd.

Address : 3/F, Building A2, Phase 1 Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan

Fax : +86 027-87782005-8056

Attn. : Tiefeng Liu



Chengdu Xingyu Science and Technology Co., Ltd.

Address : 15/F, Building G1, Zone G, Tianfu Software Park, No.1800 Yizhou Avenue, Hi-tech Zone, Chengdu, Sichuan

Attn. : Tiefeng Liu

Wuhan Xingyu Science and Technology Co., Ltd.

Address : 3/F, Building A2, Phase 1 Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan

Fax : +86 027-87782005-8056

Attn. : Tiefeng Liu

Wuhan Hualian Chuangke Science and Technology Co., Ltd.

Address : 3/F, Building A2, Phase 1 Financial Harbor, No.77 Optical Valley Avenue, East Lake High-tech Development Zone, Wuhan

Fax : +86 027-87782005-8056

Attn. : Tiefeng Liu

Beijing Anzhuoxing Science and Technology Co., Ltd.

Address : 2-1-3/F, South Block A, 768 Creative Park, No.5 A Xueyuan Road, Haidian District, Beijing

Attn. : Tiefeng Liu

**20.6** Further assurance

Each Party shall make and perform (or cause others to make and perform) all further acts and matters as may be reasonably required by any other Parties to achieve the terms and the purpose hereof, and shall sign and deliver to any other Parties all other agreements, certificates, instruments and documents to achieve the terms and the purpose hereof.

**20.7** Entire agreement

The Agreement, together with other transaction documents, constitutes the entire agreement between the parties regarding the subject matter of the Agreement and supersedes all prior written or oral understandings or agreements.

**20.8 Severability**

If any provision of the Agreement is held invalid or unenforceable to any extent, the remainder of the Agreement shall not be affected and shall be enforceable to the maximum extent permitted by laws. Any invalid or unenforceable provisions hereof shall be replaced by other valid and enforceable terms with the closest effect to the original intent of such unenforceable ones.

**20.9 Cumulative relief**

The rights and reliefs available herein or in other ways should be cumulative with all other rights and reliefs and may be exercised in succession.

**20.10 Execution**

The Agreement may be made in one or more copies and each copy is deemed original. All copies constitute the same instrument.

“2016 annual objectives”	has the meaning ascribed in Article 10.2.
“Baina Inc.”	has the meaning ascribed in the recitals of the Agreement.
“Agreement”	has the meaning ascribed in the recitals of the Agreement.
“Notice of supplementary capital increase subscription”	has the meaning ascribed in Article 9.2.3.
“Changyou”	has the meaning ascribed in the recitals of the Agreement.
“Founder”	refers to Mr. Yongzhi Yang
“Founder shareholders”	refer to Mr. Yongzhi Yang, Mr. Tiefeng Liu, Mr. Zhou Yu and Mr. Sen Li.
“Dolphin Browser”	refers to the Dolphin Browser – a kind of browser of smartphones developed and operated by the group.
“Subsidiary”	refers to the subsidiary established by a person at any place, who: (1) is at the control position at the board of directors of the said subsidiary; (2) controls over 50% of equities of the said subsidiary; (3) holds over 50% of issued shares of the said subsidiary (excluding any part of exceeding designated amount which the subsidiary has no right to enjoy at the time of distribution of profits or capital); or (4) for the purpose of the Agreement, a subsidiary of the said company includes and is limited to overseas subsidiary and domestic subsidiary.
“Both Parties” or “either Party”	has the meaning ascribed in the recitals of the Agreement.
“Company”	has the meaning ascribed in the recitals of the Agreement.
“Shareholder”	refers to the shareholder of shares of the group companies (as the case may be).
“Key employees”	refer to Yongzhi Yang, Tiefeng Liu, Zhou Yu, Sen Li, Huazhen Tan, Yan Yu, Hongliang Li, Jitang Hu and Chaodong Wu.

“Eligible listing”	refers to the initial public offering and listing of the Company or any related party thereof on the New York Stock Exchange, the US or the Stock Exchange of Hong Kong, for the purpose of the Agreement. has the meaning ascribed in Article 5.3.
“Meeting notice”	
“Group”	refers to the Company and subsidiaries from time to time, and the group company refers to any of such companies;
“Group businesses”	refer to the development and operation of Dolphin Browser – a kind of browser of smartphones and other products favourable to the user experience and business modes of Dolphin Browser for smartphones.
“Closing date”	refers to the date of closing conducted according to the investment agreement.
“Convertible bonds”	refer to convertible bonds issued by the Company to Overseas Changyou.
“Domestic subsidiaries”	
“Overseas subsidiaries”	has the meaning ascribed in the recitals of the Agreement. has the meaning ascribed in the recitals of the Agreement.
“US”	refers to the United States of America.
“Option shares”	refer to shares of the Company which can be assigned after exercising the options under the employee stock option plan.
“Liquidation event”	has the meaning ascribed in Article 14.1 has the meaning ascribed in Article 9.2.3.
“Notice of capital increase subscription”	
“Assignee”	has the meaning ascribed in Article 9.3.1.
“Transfer notice”	has the meaning ascribed in Article 9.3.3.
“Investment agreement”	has the meaning ascribed in the recitals of the Agreement.
“Restricted businesses”	has the meaning ascribed in Article 16.1.
“Exercise notice”	has the meaning ascribed in Article 10.3. has the meaning ascribed in Article 10.3.
“Exercise notice period”	
“Preferred liquidation return amount”	has the meaning ascribed in Article 14.1.
“Employee shareholders”	refer to employees who become shareholders of the Company after exercising the options under the employee stock option plan.

“Employee stock option plan”	has the meaning ascribed in Article 13.1.
“Monthly active users”	refer to users who start Dolphin Browser at least once a month. has the meaning ascribed in
“Capital increase shares”	Article 9.2.1.
“Capital increase notice”	has the meaning ascribed in Article 9.2.2.
“Dispute”	has the meaning ascribed in Article 20.3.1.
“Arbitration rules”	has the meaning ascribed in Article 20.3.3.
“Notice of arbitration”	has the meaning ascribed in Article 20.3.2.
“Important employee shareholders”	has the meaning ascribed in Article 16.1. has the meaning ascribed in Article 9.3.1.
“To-be-transferred shares”	
“Transfer conditions”	has the meaning ascribed in Article 9.3.2.
“Transfer notice” “China”	has the meaning ascribed in Article 9.3.2. refers to the People’s Republic of China, excluding Hong Kong, Macao and Taiwan for the purpose of the Agreement.

The Compliance Deed of Employee Shareholders (“the Deed”) is executed by the following parties on [—] [—], [—]:

- (1) Glory Loop Limited (an overseas acquirer), a company with limited liability legally established and validly subsisting under the laws of the British Virgin Islands with registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the “Overseas Changyou”);
- (2) Baina Inc., a company with limited liability established and validly subsisting under the laws of the British Virgin Islands with its registered address at Coastal Building, Wickham’s Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands (“Baina Inc.”);
- (3) MoboTap Inc., an exempted company established and validly subsisting under the laws of Cayman with its registered address at P.O. Box 613 GT, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands (the “Company”);

(Overseas Changyou and Baina Inc. are referred to collectively as “Existing Shareholders”)

- (4) [—], holder of [ID card] of No. [—], domiciled at [—] (the “New Shareholder”).

Whereas:

- A. The Existing Shareholders concluded a shareholder agreement (the “Shareholder Agreement”) on [—], which specifies the relations between the Existing Shareholders as shareholders of the Company and clauses reached concerning the management and operation of the Company. The Deed is attached with a copy of the Shareholder Agreement, marked with “A” for the convenience of identification.
- B. On [—], according to the [—] concluded by and between the New Shareholder and Baina Inc./[the Company] (the “Transfer Document”), Baina Inc. agreed to transfer to the New Shareholder/[the Company agreed to issue to the New Shareholder] all of its ownerships of statutory and beneficial interests of [—] ordinary shares (the “Transferred Interests”).
- C. After executing the Deed, all the parties hereto shall conduct closing (the “Closing”) according to the Transfer Document to make the New Shareholder become the owner and holder of statutory and beneficial interests of the Transferred Interests.
- D. The Deed is a supplementary agreement of the Shareholder Agreement.

The Deed is as follows upon negotiation:

1. Save as otherwise defined in the Deed, the terms and expressions hereunder shall have the definitions specified in the Shareholder Agreement.
2. The New Shareholder confirms that he has read the Shareholder Agreement and hereby undertakes to the Existing Shareholders that, after the Closing, the New Shareholder shall, as an employee shareholder, fully fulfil, undertake and comply with all clauses, undertakings, obligations and provisions under the Shareholder Agreement, just as the New Shareholder holds the Transferred Interests at all relevant time as an original party to the Shareholder Agreement.

3. For the purpose of Article 20.5.2 of the Shareholder Agreement, the notice information of the New Shareholder is as follows:

The New Shareholder:

Address :

Fax :

Attn. :

4. Unless the Deed is otherwise changed or supplemented, all the force and effect of the Shareholder Agreement shall be maintained.
5. The Deed shall be governed by the laws of Hong Kong. Any controversy, dispute or recourse incurred by or relating to the Deed, or breach, termination or invalidation arising therefrom shall be settled in a way stipulated by the Shareholder Agreement.
6. From the validation date hereof, the Deed and Shareholder Agreement shall constitute an instrument. However, if there is any conflict between the Deed and the Shareholder Agreement, the Deed shall prevail.

[Remainder is intentionally left blank]

The Deed shall be properly delivered at the date first written above.

Signed )  
and delivered by a subordinate as a deed )  
Glory Loop Limited (an overseas acquirer) )  
Witness:  
Signed )  
and delivered by a subordinate as a deed )  
Baina Inc. )  
Witness:  
Signed )  
and delivered by a subordinate as a deed )  
MoboTap Inc. )  
Witness:  
Signed )  
and delivered by a subordinate as a deed )  
[New Shareholder] )  
Witness:



The Compliance Deed of Other Assignees (“the Deed”) is executed by the following parties on [—] [—], [—]:

- (1) Glory Loop Limited (an overseas acquirer), a company with limited liability legally established and validly subsisting under the laws of the British Virgin Islands with registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the “Overseas Changyou”);
- (2) Baina Inc., a company with limited liability established under laws of the British Virgin Islands with its registered address at Coastal Building, Wickham’s Cay II, P.O. Box 2221, Road Town, Tortola, British Virgin Islands (“Baina Inc.”);
- (3) MoboTap Inc., an exempted company established and validly subsisting under the laws of Cayman with its registered address at P.O. Box 613 GT, 4th Floor Harbour Centre, George Town, Grand Cayman KY1-1107, Cayman Islands (the “Company”);

(Overseas Changyou and Baina Inc. are referred to collectively as “Existing Shareholders”)

- (4) [—], [is a company with limited liability established and subsisting under [—] (registration No.: [—])/holder of [ID card] No. [—], [with its registered address at [—]/domiciled at [—]] (the “New Shareholder”).

Whereas:

- A. The Existing Shareholders concluded a shareholder agreement (the “Shareholder Agreement”) on [—], which specifies the relations between the Existing Shareholders as shareholders of the Company and clauses reached concerning the management and operation of the Company. The Deed is attached with a copy of the Shareholder Agreement, marked with “A” for the convenience of identification.
- B. On [—], according to the [—] concluded by and between the New Shareholder and [the name of assignor] (the “Transfer Document”), [the name of assignor] agreed to transfer to the New Shareholder all of its ownerships of statutory and beneficial interests of [—] ordinary shares (the “Transferred Interests”).
- C. After executing the Deed, all the parties hereto shall conduct closing (the “Closing”) according to the Transfer Document to make the New Shareholder become the owner and holder of statutory and beneficial interests of the Transferred Interests.
- D. The Deed is a supplementary agreement of the Shareholder Agreement.

The Deed is as follows upon negotiation:

1. Save as otherwise defined in the Deed, the terms and expressions hereunder shall have the definitions specified in the Shareholder Agreement.
2. The New Shareholder confirms that he has read the Shareholder Agreement and hereby undertakes to the Existing Shareholders that, after the Closing, the New Shareholder shall, as [the name of assignor], fully fulfil, undertake and comply with all clauses, undertakings, obligations and provisions under the Shareholder Agreement, just as the New Shareholder holds the Transferred Interests at all relevant time as an original party to the Shareholder Agreement.

3. For the purpose of Article 20.5.2 of the Shareholder Agreement, the notice information of the New Shareholder is as follows:

The New Shareholder:

Address :

Fax :

Attn. :

4. Unless the Deed is otherwise changed or supplemented, all the force and effect of the Shareholder Agreement shall be maintained.
5. The Deed shall be governed by the laws of Hong Kong. Any controversy, dispute or recourse incurred by or relating to the Deed, or breach, termination or invalidation arising therefrom shall be settled in a way stipulated by the Shareholder Agreement.
6. From the validation date hereof, the Deed and Shareholder Agreement shall constitute an instrument. However, if there is any conflict between the Deed and the Shareholder Agreement, the Deed shall prevail.

[Remainder is intentionally left blank]

The Deed shall be properly delivered at the date first written above.

Signed )  
and delivered by a subordinate as a deed )  
Glory Loop Limited (an overseas acquirer) )

Witness:  
Signed )  
and delivered by a subordinate as a deed )  
Baina Inc. )

Witness:  
Signed )  
and delivered by a subordinate as a deed )  
MoboTap Inc. )

Witness:  
Signed )  
and delivered by a subordinate as a deed )  
[New Shareholder] )

Witness:



To witness hereof, all the parties hereto have instructed authorized representatives thereof to execute the Agreement at the date first written above.

Glory Loop Limited (an overseas acquirer)

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Baina Inc.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Mr. Yongzhi Yang

Signature: \_\_\_\_\_



Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_



Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

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 7, 2014

/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 7, 2014

/s/ Carol Yu

Carol Yu

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, 2014 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, 2014 and results of operations of the Company for the three months ended September 30, 2014.

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and Chairman of the  
Board of Directors  
November 7, 2014

## 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, 2014 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, 2014 and results of operations of the Company for the three months ended September 30, 2014.

/s/ Carol Yu

Carol Yu, President and Chief Financial Officer  
November 7, 2014