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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 0-30961

Sohu.com Inc.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware	**98-0204667**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NUMBER)**

Level 12, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084
People's Republic of China
(011) 8610-6272-6666
(Address, including zip code, of registrant's principal executive offices and registrant's telephone number, including area code)

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 March 31, 2010
Common stock, $.001 par value	**37,815,812**

SOHU.COM INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SOHU.COM INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(In thousands, except par value)

	As of	
	March 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 599,153	$ 563,782
Accounts receivable, net	47,849	46,610
Prepaid and other current assets	12,483	10,781
Total current assets	659,485	621,173
Fixed assets, net	116,828	115,088
Goodwill	57,440	55,555
Intangible assets, net	9,083	7,933
Other assets, net	31,750	28,524
Total assets	$ 874,586	$ 828,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,229	$ 4,602
Accrued liabilities to suppliers and agents	41,722	41,103
Receipts in advance and deferred revenue	32,873	36,944
Accrued salary and benefits	26,216	28,860
Tax payables	21,547	21,953
Other accrued liabilities	17,201	17,035
Total current liabilities	146,788	150,497
Contingent consideration	1,318	—
Commitments and contingencies		
Shareholders' equity		
Sohu.com Inc. shareholders' equity:		
Common stock: $0.001 par value per share (75,400 authorized; 37,816 and 37,749 shares issued and outstanding, respectively)	43	43
Additional paid-in capital	318,335	317,052
Treasury stock (5,389 shares)	(114,690)	(114,690)
Accumulated other comprehensive income	21,566	21,502
Retained earnings	416,065	385,874
Total Sohu.com Inc. shareholders' equity	641,319	609,781
Noncontrolling interest	85,161	67,995
Total shareholders' equity	726,480	677,776
Total liabilities and shareholders' equity	$ 874,586	$ 828,273

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

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SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Revenues:		
Advertising:		
Brand advertising	$ 39,512	$ 39,074
Sponsored search	2,834	1,562
Subtotal of advertising revenues	42,346	40,636
Online game	72,072	61,607
Wireless and others	15,036	13,495
Total revenues	129,454	115,738
Cost of revenues:		
Advertising:		
Brand advertising	17,283	13,730
Sponsored search	2,913	2,298
Subtotal of cost of advertising revenues	20,196	16,028
Online game	5,384	3,436
Wireless and others	7,246	8,129
Total cost of revenues	32,826	27,593
Gross profit	96,628	88,145
Operating expenses:		
Product development	15,518	13,314
Sales and marketing	23,009	16,826
General and administrative	9,883	7,894
Amortization of intangible assets	108	74
Total operating expenses	48,518	38,108
Operating profit	48,110	50,037
Other (expense) income	(25)	1
Interest income and exchange difference	1,199	1,122
Income before income tax expense	49,284	51,160
Income tax expense	7,963	6,586
Net income	41,321	44,574
Less: Net income (loss) attributable to non- controlling interest	11,130	(21)
Net income attributable to Sohu.com Inc.	$ 30,191	$ 44,595
Basic net income per share attributable to Sohu.com Inc.	$ 0.80	$ 1.17
Shares used in computing basic net income per share attributable to Sohu.com Inc.	37,778	38,162
Diluted net income per share attributable to Sohu.com Inc.	$ 0.73	$ 1.15
Shares used in computing diluted net income per share attributable to Sohu.com Inc.	38,443	38,851

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

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SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cash flows from operating activities:		
Net income	$ 41,321	$ 44,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,593	3,811
Share-based compensation expense	6,528	2,287
Amortization of intangible assets and other assets	475	426
Provision for allowance for doubtful accounts	88	51
Excess tax benefits from share-based payment arrangements	(531)	(103)
Others	132	(7)
Changes in current assets and liabilities:		
Prepaid and other current assets	(3,184)	12,613
Accounts receivable	(1,336)	(7,094)
Tax payables	266	6,021
Accrued liabilities to suppliers and agents	619	(3,292)
Receipts in advance and deferred revenue	(4,071)	(2,317)
Accounts payable	2,627	(137)
Other accrued liabilities	(4,598)	(148)
Net cash provided by operating activities	42,929	56,685
Cash flows from investing activities:		
Purchase of fixed assets	(6,113)	(2,154)
Purchase of intangible and other assets	(1,071)	(19)
Decrease in restricted cash	—	2,296
Acquisitions, net of cash acquired	(1,239)	—
Net cash (used in) provided by investing activities	(8,423)	123
Cash flows from financing activities:		
Issuance of common stock	252	1,786
Excess tax benefits from share-based payment arrangements	531	103
Net cash provided by financing activities	783	1,889
Effect of exchange rate changes on cash and cash equivalents	82	44
Net increase in cash and cash equivalents	35,371	58,741
Cash and cash equivalents at beginning of period	563,782	314,425
Cash and cash equivalents at end of period	$ 599,153	$ 373,166

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

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SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Three Months Ended March 31, 2010
(In thousands)

			Sohu.com Inc. Shareholders' Equity					
	Total	Comprehensive Income	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest
Beginning balance	$677,776	$ —	$ 43	$ 317,052	$(114,690)	$ 21,502	$385,874	$ 67,995
Issuance of common stock	252	—	—	252	—	—	—	—
Compensatory share-based awards	6,528	—	—	500	—	—	—	6,028
Excess tax benefits from share-based awards	531	—	—	531	—	—	—	—
Comprehensive income:								
Net income	41,321	41,321	—	—	—	—	30,191	11,130
Other comprehensive income:								
Foreign currency translation adjustment	72	72	—	—	—	64	—	8
Total other comprehensive income	72	72						
Total comprehensive income	41,393	$ 41,393						
Ending balance	$726,480		$ 43	$ 318,335	$(114,690)	$ 21,566	$416,065	$ 85,161

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

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SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Three Months Ended March 31, 2009
(In thousands)

			Sohu.com Inc. Shareholders' Equity					
	Total	Comprehensive Income	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest
Beginning balance	$391,094	$ —	$ 43	$ 201,196	$(74,683)	$ 21,349	$238,041	$ 5,148
Issuance of common stock	1,786	—	—	1,786	—	—	—	—
Compensatory share-based awards	2,287	—	—	1,571	—	—	—	716
Excess tax benefits from share-based awards	37	—	—	37	—	—	—	—
Comprehensive income:								
Net income (loss)	44,574	44,574	—	—	—	—	44,595	(21)
Other comprehensive income:								
Foreign currency translation adjustment	(18)	(18)	—	—	—	(18)	—	—
Total other comprehensive income (loss)	(18)	(18)						
Total comprehensive income	44,556	$ 44,556						
Ending balance	$439,760		$ 43	$ 204,590	$(74,683)	$ 21,331	$282,636	$ 5,843

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

SOHU.COM INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company and Basis of Presentation

Nature of Operations

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

Brand advertising and online game are the two core businesses of the Sohu Group. The brand advertising business provides advertisements on the Sohu Group's portal matrix to advertisers who wish to build up their brand awareness online. The online game business is conducted by a majority-owned subsidiary of Sohu, Changyou.com Limited ("Changyou"), which currently operates four massively multi-player online role-playing games ("MMORPGs"), (i) Tian Long Ba Bu ("TLBB"), (ii) Blade Online ("BO"), (iii) Blade Hero 2 ("BH 2") which is the sequel to BO, and (iv) Da Hua Shui Hu ("DHSH"). TLBB is Changyou's first in-house developed MMORPG and is one of the most popular online games in China.

On April 7, 2009, Changyou completed its initial public offering on the NASDAQ Global Select Market, trading under the symbol "CYOU." After Changyou's offering, Sohu continues to consolidate Changyou in Sohu's consolidated financial statements, as Sohu is Changyou's controlling shareholder, but recognizes noncontrolling interest reflecting shares held by shareholders other than Sohu. As of March 31, 2010, 28% of the economic interest in Changyou was recognized as noncontrolling interest in Sohu's consolidated financial statements. See Note 2—Changyou Transactions—Sohu's Shareholding in Changyou.

Basis of Consolidation

The consolidated financial statements include the accounts of Sohu and its wholly-owned and majority-owned subsidiaries and variable interest entities ("VIEs"). All intercompany transactions have been eliminated.

For majority-owned subsidiaries and VIEs, noncontrolling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the controlling shareholder. 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, Changyou's net income attributable to these shareholders is recorded as noncontrolling interest in Sohu's consolidated statements of operations, and Changyou's cumulative results of operations attributable to these shareholders, along with its changes in shareholders' equity and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled, are recorded as noncontrolling interest in Sohu's consolidated balance sheets. See Note 2—Changyou Transactions—Sohu's Shareholding in Changyou and Note 10—Noncontrolling Interest.

Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the three months ended March 31, 2010 are not necessarily indicative of the results expected for the full fiscal year or for any future period. Certain comparative figures have been reclassified to conform to the current presentation.

These financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("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, 2009.

2. Changyou Transactions

Share Award to Tao Wang, Chief Executive Officer of Changyou

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

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

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

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

In February 2010, 2,000,000 Class B restricted ordinary shares held by Prominence became vested. Upon this vesting, the number of Class B ordinary shares held beneficially by Tao Wang increased to 11,000,000 shares and the number of Class B restricted ordinary shares held beneficially by Tao Wang decreased to 4,000,000 shares. These numbers of Class B ordinary shares and Class B restricted ordinary shares remain unchanged as of March 31, 2010.

Changyou's 2008 Share Incentive Plan

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

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

Initial Public Offering of Changyou

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

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

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

Subsequent to the offering, Changyou has 102,500,000 Class A and Class B ordinary shares issued and outstanding. Those outstanding shares consist of (i) 70,250,000 Class B ordinary shares held by Sohu through Sohu Game; (ii) 15,000,000 Class B ordinary shares held by Tao Wang through Prominence, including 6,000,000 Class B restricted ordinary shares that were not vested as of the completion of the offering; and (iii) 17,250,000 Class A ordinary shares held by public shareholders.

Net proceeds to Changyou and Sohu Game from this initial public offering were approximately $54.7 million and $70.7 million, respectively, for total proceeds of approximately $125.4 million, after deducting underwriting discounts and commissions and offering expenses.

As a result of the completion of Changyou's initial public offering, in the second quarter of 2009, Sohu recognized a one-time gain of $100.6 million in the shareholders' equity section of Sohu's consolidated balance sheets, to reflect the net proceeds Sohu received from the initial public offering and the incremental change in Sohu's economic interest in Changyou immediately before and after the offering.

Sohu's Shareholding in Changyou

Shareholding and Control

Through the three months ended March 31, 2010, 820,000 Class B restricted share units granted to certain of Changyou's employees had become vested, and were settled in Class B ordinary shares and then converted into Class A ordinary shares.

As of March 31, 2010, Changyou had outstanding a combined total of 103,320,000 Class A and Class B ordinary shares, consisting of (i) 70,250,000 Class B ordinary shares held by Sohu through Sohu Game; (ii) 15,000,000 Class B ordinary shares held by Tao Wang through Prominence, including 4,000,000 Class B restricted ordinary shares that were not vested; (iii) 17,250,000 Class A ordinary shares issued in Changyou's initial public offering; and (iv) 820,000 Class A ordinary shares issued to certain of Changyou's employees upon conversion of Class B ordinary shares that had been issued upon the vesting and settlement of Class B restricted share units granted to those employees.

As of March 31, 2010, treating Tao Wang's 4,000,000 Class B restricted ordinary shares as owned by Tao Wang, Sohu held approximately 68% of the combined total of Changyou's outstanding Class A and Class B ordinary shares and controlled approximately 81% of the total voting power in Changyou. As a result, Sohu had the power to elect the entire board of directors of Changyou and determine the outcome of all matters submitted to a shareholder vote. As Changyou's controlling shareholder, Sohu will continue to consolidate Changyou in Sohu's consolidated financial statements but recognize noncontrolling interest reflecting shares held by shareholders other than Sohu, as aforementioned in Note 1- The Company and Basis of Presentation—Basis of Consolidation.

Economic Interest

Because Tao Wang's 4,000,000 Class B restricted ordinary shares are subject to forfeiture to Sohu until they become vested, those shares are treated as owned by Sohu, rather than as owned by Tao Wang, in the noncontrolling interest line items in Sohu's consolidated financial statements. As a result, as of March 31, 2010, Sohu was treated as holding approximately 72% of the economic interest in Changyou. Accordingly, shareholders other than Sohu were treated as holding the remaining 28% of the economic interest, which was recognized as noncontrolling interest in Sohu's consolidated financial statements, as aforementioned in Note 1- The Company and Basis of Presentation—Basis of Consolidation.

Sohu's economic interest in Changyou, as well as the noncontrolling interest recognized for Changyou in Sohu's consolidated financial statements, will continue to change as the Class B restricted ordinary shares granted to Tao Wang become vested, and the restricted share units granted to Changyou's executive officers other than Tao Wang and to certain of its employees become vested and settled.

Dilutive Impact

Through March 31, 2010, under Changyou's 2008 Share Incentive Plan, Changyou has granted 11,000,000 Class B ordinary shares (including 2,000,000 Class B restricted ordinary shares vested in February 2010) and 4,000,000 Class B restricted ordinary shares to Tao Wang through Prominence and 4,400,000 Class A and Class B restricted share units (settleable by Changyou's issuance of Class A ordinary shares and Class B ordinary shares, respectively) to its executive officers other than Tao Wang and to certain of its employees. As of March 31, 2010, the number of Changyou's outstanding restricted share units decreased from 4,400,000 to 3,556,000, as a result of forfeitures and vesting and settlement of restricted share units.

Because no Class A ordinary shares or Class B ordinary shares will be issued with respect to these restricted share units until the restricted share units are vested and settled, the unvested restricted share units and vested restricted share units that have not yet been settled are not included as outstanding shares of Changyou and have no impact on Sohu's basic net income per share. Unvested restricted share units and vested restricted share units that have not yet been settled do, however, have a dilutive impact on Sohu's diluted net income per share.

For the first quarter of 2010, in the calculation of Sohu's diluted net income per share, Sohu's economic interest in Changyou was 66%, treating all of Changyou's existing unvested restricted shares, unvested restricted share units, and vested restricted share units that have not yet been settled as vested, in the case of restricted shares, and vested and settled, in the case of restricted shares units. See Note 11—Net Income per Share.

3. Segment Information

The Sohu Group has determined that the business segments that constitute its primary reporting segments are brand advertising, sponsored search, online game and wireless, which is consistent with the Sohu Group's internal financial reporting structure.

Prior to 2009, the Company disclosed segment operating performance only through the gross profits line item, and did not allocate any operating expenses or assets to those segments, as management did not use this information to measure the performance of the operating segments.

Commencing January 1, 2009, the chief operating decision maker ("CODM") began reviewing certain additional information for the online game segment. Accordingly, the Company has adjusted the online game segment operating performance measurement disclosures to include income from operations and the main segment assets for the online game segment. For the remaining segments, the operating performance measurements are unchanged. Consistent with prior periods, some items, such as share-based compensation expense, operating expenses, other income and expense, and income tax expense, are not reviewed by the CODM. These items are disclosed in the following segment information for reconciliation purposes only.

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

	Three Months Ended March 31, 2010							
	Segments Other Than Online Game							
	Brand Advertising	Sponsored Search	Wireless	Others	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Revenues (1)	$ 42,592	$ 2,834	$13,288	$1,748	$ 60,462	$ 72,072	$ (3,080)	$ 129,454
Segment cost of revenues	(16,316)	(2,912)	(6,911)	(335)	(26,474)	(5,317)	—	(31,791)
Segment gross profit (loss)	$ 26,276	$ (78)	$ 6,377	$1,413	33,988	66,755	(3,080)	97,663
SBC (2) in cost of revenues					(968)	(67)	—	(1,035)
Gross profit					33,020	66,688	(3,080)	96,628
Operating expenses:								
Product development					(7,646)	(5,427)	—	(13,073)
Sales and marketing (1)					(15,510)	(9,624)	3,080	(22,054)
General and administrative					(4,327)	(3,463)	—	(7,790)
Amortization of intangible assets					(106)	(2)	—	(108)
SBC (2) in operating expenses					(2,590)	(2,903)	—	(5,493)
Total operating expenses					(30,179)	(21,419)	3,080	(48,518)
Operating profit					2,841	45,269	—	48,110
Other income (expense)					74	(99)	—	(25)
Interest income and exchange difference					384	815	—	1,199
Income tax expense					(1,684)	(6,279)	—	(7,963)
Net income					$ 1,615	$ 39,706	$ —	$ 41,321

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

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

	Three Months Ended March 31, 2009							
	Segments Other Than Online Game							
	Brand Advertising	Sponsored Search	Wireless	Others	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Revenues (1)	$ 47,119	$ 1,562	$13,378	$ 117	$ 62,176	$ 61,607	$ (8,045)	$ 115,738
Segment cost of revenues	(13,494)	(2,295)	(7,643)	(486)	(23,918)	(3,433)	5	(27,346)
Segment gross profit (loss)	$ 33,625	$ (733)	$ 5,735	$(369)	38,258	58,174	(8,040)	88,392
SBC (2) in cost of revenues					(239)	(8)	—	(247)
Gross profit					38,019	58,166	(8,040)	88,145
Operating expenses:								
Product development					(6,641)	(5,399)	—	(12,040)
Sales and marketing (1)					(13,749)	(10,832)	8,040	(16,541)
General and administrative					(4,200)	(3,213)	—	(7,413)
Amortization of intangible assets					(73)	(1)	—	(74)
SBC (2) in operating expenses					(1,202)	(838)	—	(2,040)
Total operating expenses					(25,865)	(20,283)	8,040	(38,108)
Operating profit					12,154	37,883	—	50,037
Other income (expense)					2	(1)	—	1
Interest income and exchange difference					446	676	—	1,122
Income tax expense					(1,532)	(5,054)	—	(6,586)
Net income					$ 11,070	$ 33,504	$ —	$ 44,574

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

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

	As of March 31, 2010			
	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Cash (1)	$ 333,748	$265,405	$ —	$ 599,153
Accounts receivable, net	46,726	1,123	—	47,849
Fixed assets, net	64,681	52,147	—	116,828
Total assets (2)	550,444	330,601	(6,459)	874,586

Note (1): The cash is mainly denominated in U.S. dollars, in Renminbi ("RMB") and in HK dollars. For a discussion of foreign currency exchange risk which the Company is exposed to, please refer to Item 3—Quantitative and qualitative disclosure about market risks—foreign currency exchange rate risk.

Note (2): The intercompany elimination for segment assets mainly consists of marketing services provided by the brand advertising segment to the online game segment (conducted through Changyou).

	As of December 31, 2009			
	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Cash(1)	$ 336,881	$226,901	$ —	$ 563,782
Accounts receivable, net	43,215	3,395	—	46,610
Fixed assets, net	65,910	49,178	—	115,088
Total assets (2)	544,942	289,391	(6,060)	828,273

Note (1): The cash is mainly denominated in U.S. dollars, in RMB and in HK dollars. For a discussion of foreign currency exchange risk which the Company is exposed to, please refer to Item 3—Quantitative and qualitative disclosure about market risks—foreign currency exchange rate risk.

Note (2): The intercompany elimination for segment assets mainly consists of marketing services provided by the brand advertising segment to the online game segment (conducted through Changyou).

4. Share-Based Compensation Expense

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

Share-based compensation expense is recognized as costs and/or expenses in the consolidated financial statements based on the fair values of the related share awards on their grant dates. Share-based compensation expense is charged to the shareholders' equity section in the consolidated balance sheets. See Note 9—Sohu.com Inc. Shareholders' Equity—Stock Incentive Plan.

Share-based compensation expense was recognized in costs and expenses for the three months ended March 31, 2010 and 2009, respectively, as follows (in thousands):

Share-based compensation expense	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cost of revenues	$ 1,035	$ 247
Product development expenses	2,445	1,274
Sales and marketing expenses	955	285
General and administrative expenses	2,093	481
	$ 6,528	$ 2,287

There was no capitalized share-based compensation expense for the three months ended March 31, 2010 and 2009.

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

Share-based compensation expense	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
For share awards granted by Sohu.com Inc.	$ 3,585	$ 1,570
For share awards granted by Changyou.com Limited	2,943	717
	$ 6,528	$ 2,287

5. Income Taxes

Sohu and Changyou.com (US) Inc. are subject to income taxes in the United States ("U.S."). Some of the Company's subsidiaries are subject to income taxes in Hong Kong. The majority of the subsidiaries and VIEs of the Company 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 Company's operations, and generate most of the Company's income.

The Company did not have any interest or penalties associated with tax positions for the three months ended March 31, 2010, nor did the Company have any significant unrecognized uncertain tax positions as of March 31, 2010.

PRC Corporate Income Tax

Advertising Business and Wireless Business

Effective from January 1, 2008, the current PRC Corporate Income Tax Law ("CIT Law") imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises. Under the current CIT Law, New Technology Enterprises can enjoy a preferential income tax rate of 15%, but after a three-year validation period, New Technology Enterprises need to re-apply for this qualification. Under the previous income tax laws and regulations, New Technology Enterprises enjoyed a favorable tax rate of 15% and were exempted from income tax for three years beginning with their first year of operations, and were entitled to a 50% tax reduction to 7.5% for the subsequent three years and 15% thereafter. The current CIT Law provides grandfathering treatment for enterprises that were (i) qualified as New Technology Enterprises under the previous PRC income tax laws, and (ii) established before March 16, 2007, if they continue to meet the criteria for New Technology Enterprises under the current CIT Law. The grandfathering provision allows these enterprises to continue enjoying their unexpired tax holidays provided by the previous income tax laws and regulations.

During the year ended December 31, 2008, three China-based subsidiaries, Sohu Era, Sohu Media and Sogou Technology, qualified as "New Technology Enterprises" under the current CIT Law. As a result, for the fiscal years 2009 and 2010, Sohu Era was subject to a 15% income tax rate and Sohu Media and Sogou Technology enjoyed a 7.5% income tax rate due to their unexpired tax holidays. These three companies will reapply for this qualification in 2011.

During the year ended December 31, 2009, in addition to the three China-based subsidiaries discussed above, two China-based VIEs, Sohu Internet and Sogou Information, qualified as "New Technology Enterprises" under the current CIT Law. As a result, for the fiscal years 2009 and 2010, Sohu Internet was subject to a 15% income tax rate and Sogou Information enjoyed a 7.5% income tax rate due to its unexpired tax holidays. These two companies will reapply for this qualification in 2012.

Online Game Business

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

In 2008, the China-based subsidiary and the VIE of Changyou, AmazGame and Gamease, qualified as "Software Enterprises" under the current CIT Law. As a result, for the fiscal years 2009 and 2010, they were subject to a 50% reduction to a tax rate of 12.5%. This favorable tax holiday will expire at the end of fiscal year 2011.

PRC Withholding Tax on Dividends

The current CIT Law imposes a 10% withholding income tax for dividends distributed by foreign invested enterprises to their immediate holding companies outside China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. Holding companies in Hong Kong, for example, will be subject to a 5% tax rate.

In the fourth quarter of 2008, AmazGame declared a dividend to its immediate holding company in Hong Kong and a withholding tax of approximately $5.0 million was accrued based on a 5% withholding tax rate. This withholding tax was paid in the third quarter of 2009.

As of March 31, 2010, the Company had not recorded any withholding tax on the retained earnings of its foreign invested enterprises in the PRC, since the Company intends to reinvest its earnings to further expand its business in mainland China, and its foreign invested enterprises do not intend to declare dividends to their immediate foreign holding companies.

Uncertain Tax Positions

With respect to PRC tax, in 2009 the PRC tax bureau communicated to some subsidiaries within the Sohu Group that certain expenses should not be treated as deductible for income tax purposes under the CIT Law, although the current CIT Law is silent in that regard. The Sohu Group had treated such expense as tax deductible in previous periods. This treatment had been communicated to the tax bureau, without the Sohu Group's receiving any objections or challenges with respect to prior PRC income tax filings. Based on the tax bureau's current interpretation, the Sohu Group concluded that it was more likely than not that such expenses would not be allowed by the tax bureau as deductions for income tax purposes. Hence, the Sohu Group recognized income tax expense of $1.2 million in the second quarter of 2009 as a result of the change in the tax bureau's position. In addition, in order to be prudent, the Sohu Group will not reverse this treatment unless it receives a written clarification issued by the tax authority that this kind of expense is deductible for income tax purposes. The situation is unchanged as of March 31, 2010.

With respect to U.S. tax, the U.S. Congress currently is considering legislation that, if enacted in its current form, would retroactively reinstate certain favorable provisions that expired on January 1, 2010. This legislation was not enacted prior to the issuance of the Company's financial statements for the three months ended March 31, 2010, and as a result the Company is required to recognize an additional $0.35 million income tax expense in the financial statements. However, the accrual of this tax liability would cause a cash payment by the Company to the U.S. taxing authorities of only $0.02 million, based on the utilization of existing U.S. federal net operating losses generated from excess tax deductions related to share-based awards of $0.33 million. This $0.33 million excess tax benefit is treated under U.S. GAAP as an increase in shareholders' equity. If the expired favorable tax provisions are reinstated retroactively to January 1, 2010, the foregoing amounts will be reversed on the Company's financial statements in the period in which such legislation is enacted.

6. Commitments and Contingencies

Contractual Obligation

On November 20, 2009, the Company entered into an agreement to purchase an office building to be built in Beijing, which will serve as the Company's headquarters, for a purchase price of approximately $110 million denominated in RMB, of which $22 million had been paid as of March 31, 2010 and was recognized as other assets in Sohu's consolidated financial statements. The remaining $88 million will be paid in installments as various stages of the development plan are completed. The estimated payment in 2010 is around $49 million. This construction is expected to be completed by the end of 2012.

The Sohu Group also has some commitments related to future minimum content and service purchases, bandwidth leasing obligations, operating lease obligations, and license fees of games developed by third-parties.

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 Company's business, results of operations or financial condition.

In March 2008, the Sohu Group was sued by four major record companies, Sony BMG, Warner, Universal and Gold Label, which alleged that the Sohu Group provided music search links and download services that violated copyrights they owned. As of March 31, 2010, the lawsuits with these four record companies were still in process.

Laws 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, sponsored search, online game and wireless and other services in the People's Republic of China (the "PRC"). Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the telecommunication, information, and media industries remain highly regulated. Restrictions are currently in place and are unclear with respect to which segments of these industries foreign-owned entities, like the Sohu Group, may operate. The Chinese government may issue from time to time new laws or new interpretations of existing laws to regulate areas such as telecommunication, information and media.

Regulatory risks also encompass the interpretation by the tax authorities of current tax laws and regulations, including the applicability of certain preferential tax treatments. The Sohu Group's legal structure and scope of operations in China could be subjected to restrictions, which could result in severe 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 the Sohu Group's assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB by its subsidiaries in China may require certain supporting documentation in order to effect the remittance.

7. Fair Value of Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities. These financial instruments are measured at their respective fair values. For fair value measurement, U.S. GAAP establishes a three-tier hierarchy which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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 marketplace.

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

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

As of March 31, 2010, the Company's cash equivalents include time deposits amounting to $300.9 million which are classified within Level 2. This is because the time deposits are valued using pricing sources and models utilizing market observable inputs.

8. Variable Interest Entities ("VIEs")

To satisfy PRC laws and regulations, the Company conducts certain business in the PRC through its VIEs. The Company consolidates all of its wholly-owned and majority-owned VIEs in its consolidated financial statements, as the Company is these VIEs' primary beneficiary. These consolidated VIEs are directly or indirectly owned by Dr. Charles Zhang ("Dr. Zhang"), the Company's Chairman, Chief Executive Officer and a major shareholder, and certain employees of the Sohu Group. Capital for the VIEs was funded by the Sohu Group through loans provided to Dr. Zhang and those employees, and was initially recorded as loans to related parties. These loans are eliminated for accounting purposes against the capital of the VIEs upon consolidation.

Under contractual agreements with the Sohu Group, Dr. Zhang and other employees of the Sohu Group who are shareholders of the VIEs are required to transfer their ownership in these entities to the Sohu Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Sohu Group at any time to repay the loans outstanding. All voting rights of the VIEs are assigned to the Sohu Group, and the Sohu Group has the right to designate all directors and senior management personnel of the VIEs. Dr. Zhang and the other employees of the Sohu Group who are shareholders of the VIEs have pledged their shares in the VIEs as collateral for the loans. As of March 31, 2010, the aggregate amount of these loans was $11.9 million.

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

For Advertising Business

Brand Advertising Business

a) Sohu Entertainment

Beijing Sohu Entertainment Culture Media Co., Ltd. ("Sohu Entertainment") was incorporated in the PRC in 2002 and is engaged in entertainment and advertising business in the PRC. As of March 31, 2010, the registered capital of Sohu Entertainment was $1.2 million. Xin Wang (Belinda Wang), the Company's Co-President and Chief Operating Officer, and another employee of the Sohu Group, hold 80% and 20% interests, respectively, in this entity.

b) Feng Yang Tian Lang

Beijing Feng Yang Tian Lang Advertising Co., Ltd. ("Feng Yang Tian Lang") was incorporated in the PRC in 2005 and is engaged in advertising services in the PRC. As of March 31, 2010, the registered capital of Feng Yang Tian Lang was $0.2 million. Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet") and Beijing Century High Tech Investment Co., Ltd. ("High Century") each holds a 50% interest in this entity.

Sponsored Search Business

c) Tu Xing Tian Xia

Beijing Tu Xing Tian Xia Information Consultancy Co., Ltd. ("Tu Xing Tian Xia") was incorporated in the PRC in 1999 and is engaged in mapping services in the PRC. As of March 31, 2010, the registered capital of Tu Xing Tian Xia was $0.2 million. High Century and Sohu Internet hold 56.1% and 43.9% interests, respectively, in this entity.

d) Sogou Information

Beijing Sogou Information Service Co., Ltd. ("Sogou Information") was incorporated in the PRC in 2005 and is engaged in providing Internet information services in the PRC. As of March 31, 2010, the registered capital of Sogou Information was $2.5 million. Each of two employees of the Sohu Group holds a 50% interest in this entity.

For Online Game Business

e) Gamease

Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease") was incorporated in the PRC in August 2007. It holds the licenses and approvals to operate online games in the PRC. Gamease's primary beneficiary is Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), which is an indirect subsidiary of Changyou and Sohu. As of March 31, 2010, the registered capital of Gamease was $1.3 million. Tao Wang, Chief Executive Officer of Changyou, and a Changyou employee hold 60% and 40% interests, respectively, in this entity.

For Wireless and Others Businesses

f) Sohu Internet

Sohu Internet was incorporated in the PRC in 2003 and is engaged in Internet information, wireless and advertising services in the PRC. As of March 31, 2010, the registered capital of Sohu Internet was $2.4 million. High Century and Sohu Entertainment hold 75% and 25% interests, respectively, in this entity.

g) GoodFeel

Beijing GoodFeel Information Technology Co., Ltd. ("GoodFeel") was incorporated in the PRC in 2001 and is engaged in value-added telecommunication services in the PRC. As of March 31, 2010, the registered capital of GoodFeel was $1.2 million. Two employees of the Sohu Group, hold 58.1% and 41.9% interests, respectively, in this entity.

h) High Century

High Century was incorporated in the PRC in 2001 and is engaged in investment holding in the PRC. As of March 31, 2010, the registered capital of High Century was $4.6 million. Dr. Zhang and another employee of the Sohu Group, hold 80% and 20% interests, respectively, in this entity.

i) 21 East Beijing

Beijing 21 East Culture Development Co., Ltd. ("21 East Beijing") was acquired in October 2006. As of March 31, 2010, the registered capital of 21 East Beijing was $0.1 million. High Century holds a 70% interest in this entity.

j) New 21 East

New 21 East Art Development (Beijing) Co., Ltd. (“New 21 East”) was incorporated in December 2007. As of March 31, 2010, the registered capital of New 21 East is $1.4 million. High Century holds a 70% interest in this entity.

As of March 31, 2010, the above VIEs had aggregate accumulated profits of approximately $55.8 million, which are reflected in Sohu’s consolidated financial statements.

9. Sohu.com Inc. Shareholders’ Equity

(a) Stockholder Rights Plan

Sohu adopted a stockholder rights plan (the “Plan”) in 2001. The Plan is designed to deter coercive takeover tactics, including the accumulation of shares in the open market or through private transactions, and to prevent an acquirer from gaining control of Sohu without offering a fair and adequate price and terms to all of Sohu’s stockholders. In general, the Plan vests stockholders of Sohu with rights to purchase preferred stock of Sohu at a substantial discount from those securities’ fair market value upon a person or group acquiring without the approval of the Board of Directors more than 20% of the outstanding shares of common stock of Sohu. Any person or group who triggers the purchase right distribution becomes ineligible to participate in the Plan, causing substantial dilution of such person or group’s holdings. The rights will expire on July 25, 2011.

(b) 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 months ended March 31, 2010 and 2009, Sohu did not purchase any shares of its common stock.

(c) Stock Incentive Plan

Both Sohu and Changyou have incentive plans for the granting of share awards, including ordinary shares, share options, restricted shares and restricted share units, to their employees and directors.

For the three months ended March 31, 2010 and 2009, total share-based compensation expense recognized was $6.5 million and $2.3 million, respectively. See Note 4—Share-based Compensation Expense.

1) Sohu.com Inc. Share Awards

Sohu’s 2000 Stock Incentive Plan (the “Sohu 2000 Stock Incentive Plan”), which provided for the issuance of up to 9,500,000 shares of common stock, including pursuant to the exercise of share options and upon vesting and settlement of restricted share units, expired on January 24, 2010. As of the expiration of the plan, 9,128,724 shares of common stock had been issued or were subject to issuance upon the vesting and exercise of options or the vesting and settlement of restricted share units granted under the plan. The maximum term of any issued stock right is ten years from the grant date. In order to continue to incentivize the Company’s employees and align their interests with those of the shareholders, the Company’s Board of Directors is proposing a new plan for approval by the Company’s shareholders at the Company’s 2010 annual meeting.

For the three months ended March 31, 2010 and 2009, total share-based compensation expense recognized was $3.6 million and $1.6 million, respectively.

Summary of Option and Restricted Share Unit Activity

i) Option activity

A summary of options activity under the Sohu 2000 Stock Incentive Plan as of and for the three months ended March 31, 2010 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding at January 1, 2010	555	$ 16.55	4.54	$ 22,625
Exercised	(16)	15.85		
Forfeited or expired	—	—		
Outstanding at March 31, 2010	539	16.57	4.32	$ 20,490
Vested at March 31, 2010	539	16.57	4.32	$ 20,490
Exercisable at March 31, 2010	539	16.57	4.32	$ 20,490

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sohu's closing stock price of $54.60 on March 31, 2010 and the exercise price of share options. The total intrinsic value of share options exercised for the three months ended March 31, 2010 was $0.6 million.

For the three months ended March 31, 2010, no compensation expense was recognized for share options because the requisite service periods for share options had expired by the end of 2009. For the three months ended March 31, 2009, total share-based compensation expense recognized for share options was $0.5 million.

For the three months ended March 31, 2010 and 2009, total cash received from the exercise of share options amounted to $0.3 million and $1.8 million, respectively.

ii) Restricted share unit activity

A summary of restricted share units activity under the Sohu 2000 Stock Incentive Plan as of and for the three months ended March 31, 2010 is presented below:

Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2010	209	$ 33.41
Granted	731	61.23
Vested	(37)	23.64
Forfeited	(15)	54.21
Unvested at March 31, 2010	888	56.38
Expected to vest thereafter	637	56.04

For the three months ended March 31, 2010 and 2009, total share-based compensation expense recognized for restricted share units was $3.6 million and $1.1 million, respectively. As of March 31, 2010, there was $29.2 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 1.3 years.

2) Changyou.com Limited Share Awards

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

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

Through March 31, 2010, Changyou has granted under the Changyou 2008 Share Incentive Plan 11,000,000 Class B ordinary shares (including 2,000,000 Class B restricted ordinary shares vested in February 2010) and 4,000,000 Class B restricted ordinary shares to Tao Wang through Prominence and 4,400,000 Class A and Class B restricted share units (settleable by Changyou's issuance of Class A ordinary shares and Class B ordinary shares, respectively) to its executive officers other than Tao Wang and to certain of its employees.

For the three months ended March 31, 2010 and 2009, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was $2.9 million and $0.7 million, respectively.

Share Awards granted before Changyou's Initial Public Offering

i) Share Award to Tao Wang, Chief Executive Officer of Changyou

As aforementioned in Note 2—Changyou Transactions, in January 2008, Sohu communicated to and agreed with Tao Wang to grant him 700,000 ordinary shares and 800,000 restricted ordinary shares, in lieu of his contingent right in Beijing Fire Fox. The difference between the fair values ("Incremental Fair Value"), of these 700,000 ordinary shares and 800,000 restricted ordinary shares and Tao Wang's contingent right in Beijing Fire Fox was accounted for as share-based compensation expense.

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

For the 700,000 ordinary shares, because the terms of the issuance of these ordinary shares had been approved and were communicated to and agreed with Tao Wang as of January 2, 2008, this was considered the grant date. Accordingly, the Incremental Fair Value was determined as of that date. The portion of the Incremental Fair Value related to these ordinary shares, equal to $1.8 million, was recognized as share-based compensation expense in product development expenses for the three months ended March 31, 2008.

For the 800,000 restricted ordinary shares, as a result of the modification of their vesting terms in April 2008, the portion of the Incremental Fair Value related to these shares, equal to $7.0 million, was determined in April 2008, and was accounted for as share-based compensation expense over the vesting period starting from the date of the modification, following the accelerated basis of attribution. A summary of activity for these restricted ordinary shares as of and for the three months ended March 31, 2010 is presented below. The shares and their fair value presented in the following form have been revised on a retroactive basis to give effect to the ten-for-one share split.

Class B Restricted Ordinary Shares	Number of Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2010	6,000	$ 1.36
Granted	—	—
Vested	(2,000)	1.36
Unvested at March 31, 2010	4,000	1.36
Expected to vest thereafter	4,000	1.36

For the three months ended March 31, 2010 and 2009, share-based compensation expense recognized for the above 8,000,000 Class B restricted ordinary shares was $0.3 million and $0.7 million, respectively. As of March 31, 2010, there was $1.4 million of unrecognized compensation expense related to the unvested Class B restricted ordinary shares.

The fair value of the ordinary shares and restricted ordinary shares 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 partly in reliance on a report prepared by a qualified professional appraiser using management's estimates and assumptions. This assessment required complex and subjective judgments regarding Changyou's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants were made.

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

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

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

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

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

A summary of activity for the above Class B restricted share units as of and for the three months ended March 31, 2010 is presented below. The shares and their fair values presented in the following form have been revised on a retroactive basis to give effect to the ten-for-one share split.

Class B Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2010	2,055	$ 1.98
Granted	—	—
Vested*	(685)	1.98
Forfeited	—	—
Unvested at March 31, 2010	1,370	1.98
Expected to vest thereafter	1,370	1.98

* including 475,000 shares not settled as of March 31, 2010.

For the three months ended March 31, 2010, total share-based compensation expense recognized for the above 2,740,000 Class B restricted share units was $0.3 million. For the three months ended March 31, 2009, the share-based compensation expense was zero because such expense began to be recognized after Changyou's initial public offering as mentioned above. As of March 31, 2010, there was $1.1 million of unrecognized share-based compensation expense related to the unvested Class B restricted share units.

The methods Changyou used to determine the fair value as of the April 2008 grant date of these Class B restricted share units were the same as the methods used for the shares granted to Tao Wang as described above, with different discount rates applied.

iii) Share Awards to Other Employees

On February 17, 2009, Changyou granted an aggregate of 45,600 Class A restricted share units (settleable in Class A ordinary shares) to certain of its employees. These restricted share units are subject to vesting over a four-year period commencing upon the completion of the listing of Changyou's Class A ordinary shares in an initial public offering by Changyou. The grant date fair value of the awards was recognized in Sohu's consolidated statements of operations starting from April 2, 2009, when ADSs representing Changyou's Class A ordinary shares were first listed on the NASDAQ Global Select Market.

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

A summary of activity for the Class A restricted share units as of and for the three months ended March 31, 2010 is presented below. The shares and fair value presented in the following form have been revised on a retroactive basis to give effect to the ten-for-one share split.

Class A Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2010	432	$ 8.00
Granted	—	—
Vested	—	—
Forfeited	—	—
Unvested at March 31, 2010	432	8.00
Expected to vest thereafter	389	8.00

For the three months ended March 31, 2010, total share-based compensation expense recognized for the above 456,000 Class A restricted share units was $0.4 million. As of March 31, 2010, there was $1.5 million of unrecognized share-based compensation expense related to the unvested Class A restricted share units.

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

Share Awards granted after Changyou's Initial Public Offering

As of March 31, 2010, Changyou had granted an aggregate of 1,204,000 Class A restricted share units (settleable in Class A ordinary shares) to executive officers other than Tao Wang and to certain of its employees. These Class A restricted share units are subject to vesting over a four-year period commencing on their grant dates. A summary of activity for the Class A restricted share units as of and for the three months ended March 31, 2010 is presented below.

Class A Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2010	1,200	$ 12.41
Granted	4	32.67
Vested	—	—
Forfeited	—	—
Unvested at March 31, 2010	1,204	12.48
Expected to vest thereafter	1,204	12.48

For the three months ended March 31, 2010, total share-based compensation expense recognized for the above 1,204,000 Class A restricted share units was $1.9 million. As of March 31, 2010, there was $7.6 million of unrecognized compensation expense related to the unvested Class A restricted share units.

The fair value of restricted share units as of their grant date was determined based on the market price of Changyou's ADSs on that date.

10. Noncontrolling Interest

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

The Company's majority-owned subsidiaries and VIEs which are consolidated in Sohu's consolidated financial statements but with noncontrolling interest recognized are Changyou and 21 East Beijing, New 21 East and 21 East Entertainment Limited (collectively "21 East", which are entertainment companies). As of March 31, 2010, Sohu held 72% of the economic interest in Changyou and 70% of the economic interest in 21 East.

Noncontrolling Interest in the Consolidated Balance Sheets

As of March 31, 2010 and December 31, 2009, noncontrolling interest in the consolidated balance sheets was $85.2 million and $68.0 million, respectively.

	As of	
	March 31 2010 (in thousands)	December 31, 2009 (in thousands)
Changyou	$ 84,883	$ 67,691
21 East	278	304
Total	$ 85,161	$ 67,995

As of March 31, 2010 and December 31, 2009, noncontrolling interest in Changyou in Sohu's consolidated balance sheets was $84.9 million and $67.7 million, respectively. As of March 31, 2010 and December 31, 2009, Sohu recognized noncontrolling interest in shareholders' equity in Sohu's consolidated balance sheets to reflect the interest in Changyou's net assets attributable to shareholders other than Sohu. This noncontrolling interest consisted of a 28% and 26%, respectively, economic interest in Changyou's net assets and reflected the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest, as aforementioned in Note 1- The Company and Basis of Presentation—Basis of Consolidation.

Noncontrolling Interest in the Consolidated Statements of Operations

For the three months ended March 31, 2010, noncontrolling interest in the consolidated statements of operations was $11.1 million, compared with negative $21,000 for the three months ended March 31, 2009.

	Three Months Ended March 31,	
	2010 (in thousands)	2009 (in thousands)
Changyou	$ 11,157	$ —
21 East	(27)	(21)
Total	$ 11,130	$ (21)

For the three months ended March 31, 2010, Sohu recognized $11.2 million noncontrolling interest in its consolidated statements of operations to reflect the 28% economic interest in Changyou attributable to shareholders other than Sohu. For the three months ended March 31, 2009, there was no noncontrolling interest recognized for Changyou.

11. Net Income per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise of share-based awards using the treasury stock method and shares issuable upon the conversion of zero coupon convertible senior notes using the if-converted method. Additionally, for purposes of calculating diluted net income per share, Sohu's consolidated net income is adjusted for Changyou's net income multiplied by the difference between:

(a) the percentage of the total economic interest in Changyou held by Sohu, which was 72% for the first quarter of 2010, and

(b) the percentage of the weighted average number of Changyou shares held by Sohu to the weighted average number of Changyou ordinary shares and shares issuable upon the exercise of share-based awards, which was 66% for the first quarter of 2010.

The percentage of 66% was calculated by treating all of Changyou's existing unvested restricted shares as vested, and all unvested restricted share units and vested restricted share units that have not yet been settled as vested and settled by Changyou. Hence, Changyou's share number increases from the basic basis to the fully diluted basis, causing the percentage of Changyou's net income attributable to Sohu to decrease from 72% to 66%. As a result, Changyou's net income attributable to Sohu decreased accordingly. This impact is presented as "incremental dilution from Changyou" in the table below.

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

	Three Months Ended March 31,	
	2010	2009
Numerator:		
Net income attributable to Sohu.com Inc., basic	$ 30,191	$ 44,595
Effect of dilutive securities:		
Incremental dilution from Changyou	(2,264)	—
Net income attributable to Sohu.com Inc., diluted	$ 27,927	$ 44,595
Denominator:		
Weighted average basic common shares outstanding	37,778	38,162
Effect of dilutive securities:		
Share options and restricted share units	665	689
Weighted average diluted common shares outstanding	38,443	38,851
Basic net income per share attributable to Sohu.com Inc.	$ 0.80	$ 1.17
Diluted net income per share attributable to Sohu.com Inc.	$ 0.73	$ 1.15

12. Subsequent Events

The Company has performed an evaluation of subsequent events through the date the financial statements were issued, with no other events or transactions needing recognition or disclosure found.

13. Recently Issued Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued new guidance on revenue recognition for arrangements with multiple deliverables and certain revenue arrangements that include software elements. By providing another alternative for determining the selling price of deliverables, the guidance for arrangements with multiple deliverables will allow companies to allocate consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics and will often result in earlier revenue recognition. The new guidance modifies the fair value requirements of previous guidance by allowing "best estimate of selling price" in addition to vendor-specific objective evidence ("VSOE") and other vendor objective evidence ("VOE," now referred to as "TPE," standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted under the new guidance. The new guidance for certain revenue arrangements that include software elements removes non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance, resulting in the recognition of revenue similar to that for other tangible products. The new guidance is effective for fiscal years beginning on or after June 15, 2010. However, companies may adopt the guidance as early as interim periods ended September 30, 2009. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. The Company has not early adopted the new guidance and is currently evaluating the impact on its consolidated financial statements of adopting this guidance.

In December 2009, the FASB issued Consolidations—Improvements to Financial Reporting by Enterprises Involved with VIEs. The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The new disclosure requirements were effective on January 1, 2010. The Company has adopted the new guidance in the first quarter of 2010 and the adoption did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued an update to existing standards on fair value measurements, which requires new disclosures about inputs and valuation techniques used in recurring and non-recurring fair value measurements and about significant transfers between the three levels of fair value measurements. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009. The Company has adopted the new guidance in the first quarter of 2010 and the adoption did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued an update to existing standards on subsequent events. Among the various amendments, the FASB removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The new guidance is effective upon issuance. The Company has adopted the new guidance in the first quarter of 2010 and the adoption did not have a material impact on the Company's consolidated financial statements.

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

As used in this report, references to "us," "we," "our," "our company," "our group," "Sohu" and "Sohu.com" are to Sohu.com Inc. and, except where the context requires otherwise, our wholly-owned and majority-owned subsidiaries and variable interest entities ("VIEs"), Sohu.com Limited, Sohu.com (Hong Kong) Limited ("Sohu Hong Kong"), Kylie Enterprises Limited, All Honest International Limited, Sohu.com (Game) Limited ("Sohu Game"),Go2Map Inc., Sohu.com (Search) Limited, Sogou Inc., Sogou (BVI) Limited, Sogou Hong Kong Limited, 21 East Entertainment Limited ("21 East HK"), Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era"), Beijing Sohu Interactive Software Co., Ltd. ("Sohu Software"), Go2Map Software (Beijing) Co., Ltd. ("Go2Map Software"), Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"), Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), Beijing Sohu Software Technology Co., Ltd. ("New Software"), Beijing Fire Fox Digital Technology Co., Ltd. ("Beijing Fire Fox", also known as Beijing Huohu Digital Technology Co., Ltd., or "Huohu"), Beijing Century High Tech Investment Co., Ltd. ("High Century"), Beijing Sohu Entertainment Culture Media Co., Ltd. ("Sohu Entertainment", formerly known as Beijing Hengda Yitong Internet Technology Development Co., Ltd., or "Hengda"), Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet"), Beijing GoodFeel Information Technology Co., Ltd. ("GoodFeel"), Beijing Tu Xing Tian Xia Information Consultancy Co., Ltd. ("Tu Xing Tian Xia"), Beijing Feng Yang Tian Lang Advertising Co., Ltd. ("Feng Yang Tian Lang"), Beijing Sogou Information Service Co., Ltd. ("Sogou Information"), Beijing 21 East Culture Development Co., Ltd. ("21 East Beijing"), New 21 East Art Development (Beijing) Co., Ltd. ("New 21 East"), 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 VIE of Changyou: Changyou.com HK Limited ("Changyou HK", formerly known as TL Age Hong Kong Limited), Changyou.com (US) Inc. (formerly known as AmazGame Entertainment (US) Inc.), Changyou.com (UK) Company Limited ("Changyou UK"), ChangyouMy Sdn. Bhd ("Changyou Malaysia"), Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame") , Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace"), Changyou.com Korea Limited ("Changyou Korea"), and Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease"), and these references should be interpreted accordingly. Unless otherwise specified, references to "China" or "PRC" refer to the People's Republic of China and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect," "anticipate," "intend," "believe," or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission ("SEC") on February 26, 2010, as updated by Part II Item 1A of this report. Readers are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

Sohu is a leading Internet company in China, providing hundreds of millions of Chinese Internet users with news, information, video content, entertainment, and communication. We operate one of the most comprehensive matrices of Chinese language Web properties and one of the most popular online games in China. Substantially all of our operations are conducted through our indirect wholly and majority-owned China-based subsidiaries and variable interest entities (collectively the “Sohu Group”).

Our Business

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

Starting from 2003, our online game business has developed from nascency to become one of the top massively multi-player online role-playing game (“MMORPG”) operators in China. Its success was further endorsed by the carve-out and initial public offering of our MMORPG subsidiary Changyou (NASDAQ: CYOU) in April 2009. The successful initial public offering has provided Changyou with the platform and resources to become a leading company in the MMORPG industry, and has enabled Changyou to compete head to head with first tier players. As Changyou’s controlling shareholder, Sohu continues to consolidate Changyou but recognizes noncontrolling interests reflecting shares held by shareholders other than Sohu. During the first quarter of 2010, treating all existing restricted shares as vested and restricted share units as vested and settled, Sohu owned approximately 66% of the economic interest in Changyou, with the remaining 34% of the economic interest in Changyou owned by Changyou’s shareholders other than Sohu. We do not expect the percentage of Sohu’s economic interest in Changyou to fluctuate significantly, given that Sohu does not have any plan to sell any additional shares in Changyou in the foreseeable future.

Advertising Business

Our advertising business, including brand advertising services and sponsored search services, offers various products and services to our users (such as free of charge premier content, interactive community, integration search and other Internet services), and provides advertising services to advertisers on our matrices of Chinese language Web properties consisting of:

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

Brand advertising services provide advertisements on our portal Websites to companies seeking to increase their brand awareness online. Sponsored search services provide priority placements in our search directory and pay-for-click services to customers, especially small and medium-sized enterprises.

Online Game Business

Our online game business is conducted through Sohu’s majority-owned subsidiary Changyou. Changyou is a leading online game developer and operator in China as measured by the popularity of one of its games, Tian Long Ba Bu (“TLBB”). TLBB, which was launched in May 2007, was ranked by International Data Corporation (“IDC”) in 2008 as the fourth most popular online game overall in China and the second most popular online game in China among locally-developed online games. Changyou engages in the development, operation and licensing of MMORPGs, which are interactive online games that may be played simultaneously by hundreds of thousands of game players. Changyou currently operates four MMORPGs, TLBB which was developed in-house, Blade Online (“BO”) which was licensed from third parties, Blade Hero 2 (“BH 2”) which is the sequel to BO, and Da Hua Shui Hu (“DHSH”) which was licensed from third parties. For the three months ended March 31, 2010, these games had approximately 87.4 million aggregate registered accounts, 2.4 million aggregate active paying accounts, 1.04 million aggregate peak concurrent users and average revenue per active paying account of Renminbi (“RMB”) 201.

Changyou has four MMORPGs in the pipeline, with different graphic styles, themes and features to appeal to different segments of the online game player community. Games in our pipeline include Duke of Mount Deer (“DMD”), which we are developing in-house, Zhong Hua Ying Xiong (“ZHYX”), Immortal Faith (“IF”) and the Legend of Ancient World (“LAW”), all of which we licensed from third parties.

Changyou operates its current games under the item-based revenue model, meaning that game players can play the games for free, but may choose to pay for virtual items to enhance the game-playing experience. Game players purchase prepaid game cards or game points, which are used to purchase virtual items. Changyou sells prepaid game cards to regional distributors throughout China, who in turn sub-distribute the prepaid game cards to numerous retail outlets, including Internet cafés and various Websites, newsstands, software stores, book stores and retail stores. Changyou also directly sells game points to game players through our online sales platform.

As aforementioned, on April 7, 2009 Changyou completed its initial public offering on the NASDAQ Global Select Market, trading under the symbol “CYOU.”

Agreements between Sohu and Changyou

Changyou has entered into agreements with Sohu with respect to various interim and ongoing relationships between us, including a Master Transaction Agreement, a Non-Competition Agreement, and a Marketing Services Agreement. These agreements contain provisions, among others, relating to the transfer of assets and assumption of liabilities of the MMORPG business, provide cross-indemnification of liabilities arising from each other’s business, mutually limit Sohu and Changyou from competing in each other’s business, and also include a number of ongoing commercial relationships.

Wireless and Others Businesses

Our wireless and others businesses mainly consist of the wireless business, which offers value-added services for mobile phone users such as news, weather forecasts, chatting, entertainment information and mobile phone ringtone and logo downloads.

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 Generally Accepted Accounting Principles in the United States (“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 and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that revenue recognition, share-based compensation expense recognition, income taxes and uncertain tax positions, recognition of noncontrolling interest, computation of net income per share, allowance for doubtful accounts, determination of fair value of financial instruments, assessment of impairment for long-lived assets and goodwill, and determination of functional currencies represent critical accounting policies that reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

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.

Advertising Revenues

Advertising revenues include revenues from brand advertising services and sponsored search services. Advertising revenue is recognized after deducting agent rebates and applicable business tax. The recognition of advertising revenue involves certain management judgments. The amount and timing of our advertising revenues could be materially different for any period if management made different judgments or utilized different estimates. We do not enter into advertising-for-advertising barter transactions.

Brand Advertising Revenues

For brand advertising revenues, a contract is signed to establish the fixed price and advertising services to be provided. Based on the contracts, we provide advertisement placements on our different Website channels and/or in different formats, including but not limited to banners, links, logos, buttons, rich media and content integration.

For brand advertising revenue recognition, prior to entering into contracts, we make a credit assessment of the customer to assess the collectability of the contract. For those contracts for which collectability was assessed as reasonably assured, we recognize revenue ratably over the period during which the advertising services were provided and when all revenue recognition criteria were met. For those contracts for which collectability was assessed as not reasonably assured, we recognize revenue only when the cash was received and all revenue recognition criteria were met. We treat all elements of advertising contracts as a single unit of accounting for revenue recognition purposes.

Sponsorship services, which is a type of brand advertising service, is similar to other brand advertising services, but generally involves larger amounts and longer contract periods. Sponsorship services may allow advertisers to sponsor a particular area on our Websites, and may include brand affiliation services and/or a larger volume of services, and may require some exclusivity or premier placements. Sponsorship services advertisement revenues are 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.

Sponsored Search Revenues

Sponsored search services mainly include priority placement services and pay-for-click services. The priority placement services are placed in our search directory and are normally provided for a fixed fee over the service period of the contract. Pay-for-click services mainly consist of displaying the text-based links of our advertisers on our Websites and our Website Alliance network. Sponsored search contracts are normally for relatively small amounts and are signed with small and medium-sized enterprises.

Revenue for priority placement services 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. Revenue for pay-for-click services is recognized on a per click basis when the users click on the displayed links. The priority of the display of text-based links is based on the bidding price of different advertisers.

Online Game Revenues

Game Operation Revenues

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

Under both the item-based and the time-based revenue models, proceeds received from sales of prepaid cards are initially recorded as receipts in advance.

Proceeds from sale of prepaid cards to distributors are deferred when received and, for the item-based revenue model, revenue is recognized over the estimated lives of the virtual items purchased or as the virtual items are consumed. For the time-based revenue model, revenue is recognized based upon the actual usage of time units by the game players. The revenues are recorded net of business tax, sales discounts and rebates to our distributors.

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

Overseas Licensing Revenues

We also derive online game revenues from licensing our games in other countries and territories. The licensing agreements provided for two revenue streams, an initial license fee and a monthly revenue-based royalty based on monthly revenues from the games. The initial license fee consists of both a fixed amount and additional amounts receivable upon achieving certain sales targets. Since we are required to provide when-and-if-available upgrades to the licensees during the license period, both the fixed portion and the additional portion of the initial license fee are recognized as revenue ratably over the license period. The fixed portion of the initial license fee is recognized ratably over the remaining license period from the date the game is launched, and the additional portion of the initial license fee is recognized ratably over the remaining license period from the date such additional amount is certain. The monthly usage-based royalty fee is recognized when earned, provided that collectability is reasonably assured.

Wireless and Others Revenues

Our wireless and others revenues are mainly from our wireless business.

Wireless revenues are derived from a wide range of wireless products focused on entertainment, information and communications, such as short messaging services (“SMS”), Ring Back Tone (“RBT”), Wireless Application Protocol (“WAP”), multi-media messaging services (“MMS”) and interactive voice response (“IVR”). We mainly offer news, weather forecasts, chatting, entertainment information, mobile phone ring tones, and logo downloads and various other mobile related services to mobile phone users through contracts signed with third party mobile network operators.

Wireless service fees are charged on a monthly or per message/download basis. Due to technical issues with the operator’s network, we might be unable to collect certain wireless service fees from an operator in certain circumstances. This un-collectability is referred to as the “failure rate,” which can vary from operator to operator. Wireless revenues are recognized in the month in which the service is performed, provided that no significant obligations remain. To recognize wireless revenue, we rely on China mobile network operators to provide us billing confirmations for the actual amount of services they have billed to their mobile customers. At the end of each reporting period, when an operator has not yet provided us monthly billing confirmations for the period, we use information generated from our internal system as well as historical data to estimate the failure rate, to estimate the amount of collectable wireless service fees and to recognize revenue. When we later receive the actual billing confirmation, we then record a true-up accounting adjustment. Although we believe we have the ability to make reasonable estimates, differences between the actual facts and our estimates may result in significant fluctuations in the amount and timing of the revenue recognized. For the three months ended March 31, 2010, 83% of our estimated wireless revenues were confirmed by the monthly billing confirmations received from the mobile network operators. Generally, (i) within 15 to 120 days after the end of each month, we receive billing confirmations from each of the operators confirming the amount of wireless service charges billed to that operator’s mobile phone users and (ii) within 30 to 180 days after delivering billing confirmations, each operator remits the wireless service fees, net of its service fees, for the month to us.

Our management must determine whether to record our wireless revenues using the gross or net method of reporting. Determining whether revenue should be reported gross or net is based on an assessment of various factors, the primary factors being whether we are acting as the principal in offering services to the customer or whether we are acting as an agent in the transaction and the specific requirements of each contract. Currently, we have the primary responsibility for fulfillment and acceptability of the wireless services, and as such a majority of our wireless revenues are recorded on a gross basis. To the extent we are acting as a principal in a transaction, we report as revenue payments received on a gross basis, and report as costs of revenue amounts attributable to services provided by mobile network operators and other vendors. To the extent we are acting as an agent in a transaction, we report on a net basis as revenue payments received less commissions and other payments to third parties. Whether we are serving as principal or agent in a transaction is judgmental in nature and is determined by evaluating the terms of the arrangement. The related commissions and/or other payments to third parties are recorded as costs or expenses.

Share-based Compensation Expense

Share-based compensation expense is for share awards, including common stock, ordinary shares, share options, restricted shares and restricted share units, granted by Sohu and Changyou to their employees and directors. Share-based compensation expense is recognized as costs and/or expenses in the consolidated financial statements based on the fair values of the related share awards on their grant dates.

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

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

Share-based compensation expense for ordinary shares granted is fully recognized in the quarter during which these ordinary shares are granted. Share-based compensation expense for share options, restricted shares and restricted share units granted is recognized on an accelerated basis over the requisite service period. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and the related compensation expense is not recorded for that number of awards.

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.

Income Taxes and Uncertain Tax Positions

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 financial reporting and 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.

Our deferred tax assets are related to net operating losses of Sohu that would be subject to Corporate Income Tax in the United States ("U.S. Corporate Income Tax"), and net operating losses and temporary differences between accounting and tax basis for our China-based subsidiaries and variable interest entities ("VIEs"). Substantially all of our income is earned through China-based subsidiaries and VIEs, and in the foreseeable future we do not intend to repatriate income to the United States ("U.S.") where it would be subject to U.S. Corporate Income Tax, except that, under certain circumstances, we may repatriate to the U.S. income that will be subject to the U.S. Alternative Minimum Tax. In the foreseeable future, it is more likely than not that the deferred tax assets resulting from the net operating losses of Sohu will not be realized. Hence, we recorded a valuation allowance against our gross deferred tax assets in order to reduce the deferred tax assets to the amount that is more likely than not to be realized. If events were to occur in the future that would allow us to realize more of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred. If events were to occur in the future that would require us to realize less of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the valuation allowance against deferred tax assets that would decrease income for the period when those events occurred. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities.

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 greater than 50% likely to be realized upon settlement.

Noncontrolling Interest

Noncontrolling interest ("NCI") is the portion of economic interest in Sohu's majority-owned subsidiaries and VIEs which is not attributable, directly or indirectly, to Sohu. Currently, the NCI in our consolidated financial statements consists of NCI for Changyou and 21 East Beijing, New 21 East and 21 East Entertainment Limited (collectively "21 East").

Net Income per Share

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise of share-based awards using the treasury stock method and shares issuable upon the conversion of zero coupon convertible senior notes using the if-converted method. Additionally, for purposes of calculating diluted net income per share, Sohu's consolidated net income is adjusted for Changyou's net income multiplied by the difference between:

(a) the percentage of the total economic interest in Changyou held by Sohu, and

(b) the percentage of the weighted average number of Changyou shares held by Sohu to the weighted average number of Changyou ordinary shares and shares issuable upon the exercise of share-based awards.

Allowance for Doubtful Accounts Receivable

Our management makes estimates of the collectability of our accounts receivable. In estimating the general allowance, many factors are considered, including but not limited to reviewing delinquent accounts receivable, performing aging analyses and customer credit analyses, 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 mobile network operators deteriorate or the mobile network operators are unable to collect fees from their end customers, resulting in their inability to make payments due to us.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, accounts receivable, marketable securities, accounts payable and accrued liabilities. These financial instruments are measured at their respective fair values. For fair value measurement, U.S. GAAP establishes a three-tier hierarchy which prioritizes the inputs used in the valuation methodologies in measuring fair value:

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 marketplace.

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

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Long-Lived Assets

Long-lived assets include fixed assets, intangible assets and other assets.

Fixed assets comprise computer equipment and hardware, office building, investment properties, leasehold improvements, vehicles and office furniture. 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.

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

Other assets primarily include payments for the office building purchased in 2009 as our headquarters before it is recognized as fixed assets, prepaid content fees, prepaid license fees and rental deposits. We amortize the content fees and license fees over the terms of the related contracts.

Management's judgment is required in the assessment of the useful lives of long-lived assets, and is required in the measurement of impairment. 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. 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 charge 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.

Assets to be disposed of are reported at the lower of the carrying value or fair value less cost to sell.

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 VIEs. Goodwill is not depreciated or amortized but is tested for impairment at the reporting unit level (business segment) on an annual basis, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of goodwill with its carrying value. 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. Any impairment losses recorded in the future could have a material adverse impact on our financial condition and results of operations.

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 it primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. The functional currency of Sohu is the U.S. dollar. The functional currency of our subsidiaries and VIEs in the PRC, United Kingdom, Malaysia and Korea are the RMB, British Pound, Malaysian Ringgit and Korean Won, respectively, while the functional currency of our subsidiaries in the U.S. and Hong Kong is the U.S. dollar.

Foreign Currency Translation

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

RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009

REVENUES

The following table presents our revenues by revenue source and by proportion for the periods indicated:

	Three Months Ended March 31,				
	2010		2009		2010 VS 2009
	(in thousands, except percentages)				
Revenues:					
Advertising:					
Brand advertising	$ 39,512	31%	$ 39,074	34%	$ 438
Sponsored search	2,834	2%	1,562	1%	1,272
Subtotal of advertising revenues	42,346	33%	40,636	35%	1,710
Online game	72,072	56%	61,607	53%	10,465
Wireless and others	15,036	11%	13,495	12%	1,541
Total revenues	$129,454	100%	$115,738	100%	$ 13,716

Total revenues were $129.5 million for the three months ended March 31, 2010, compared to $115.7 million for the three months ended March 31, 2009. The year-on-year increase in total revenues for the first quarter of 2010 was $13.7 million. The increase was mainly attributable to online game revenues.

Advertising Revenues

Advertising revenues were $42.3 million for the three months ended March 31, 2010, compared to $40.6 million for the three months ended March 31, 2009. The year-on-year increase in advertising revenues for the first quarter of 2010 was $1.7 million. The increase was mainly attributable to sponsored search revenues.

For the three months ended March 31, 2010 and 2009, we did not enter into advertising-for-advertising barter transactions.

Brand Advertising Revenues

Brand advertising revenues were $39.5 million for the three months ended March 31, 2010, compared to $39.1 million for the three months ended March 31, 2009. The year-on-year increase in brand advertising revenues for the first quarter of 2010 was $0.4 million.

We expect brand advertising revenues to increase in the second quarter of 2010, compared to the first quarter of 2010.

Sponsored Search Revenues

Sponsored search revenues were $2.8 million for the three months ended March 31, 2010, compared to $1.5 million for the three months ended March 31, 2009. The year-on-year increase in sponsored search revenues for the first quarter of 2010 was $1.3 million. The increase was mainly due to results from an adjustment in our sales and product development strategy commencing in 2008.

Sponsored search services primarily include priority placements in our search directory and pay-for-click services consisting of displaying the text-based links of our advertisers on our Websites and our Website Alliance network. Revenues from pay-for-click services accounted for approximately 75% of the total sponsored search revenues for the first quarter of 2010, compared to 60% for the first quarter of 2009.

We expect sponsored search revenues to increase in the second quarter of 2010, compared to the first quarter of 2010.

Online Game Revenues

Online game revenues were $72.1 million for the three months ended March 31, 2010, compared to $61.6 million for the three months ended March 31, 2009. The year-on-year increase in online game revenues for the first quarter of 2010 was $10.5 million. The increase was mainly due to increased popularity of our flagship game, TLBB, which we launched in May 2007.

We expect online game revenues to increase in the second quarter of 2010, compared to the first quarter of 2010.

Revenue Sources

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

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Online game revenues:		
Game operations revenues	$ 70,202	$ 59,346
Overseas licensing revenues	1,870	2,261
Total online game revenues	$ 72,072	$ 61,607

Game Operations Revenues

Our current four MMORPGs, TLBB, BO, BH 2 and DHSH, are free to play and generate revenues using the item-based revenue model through the sale of virtual items that enhance the game-playing experience. Game players can purchase virtual items, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, materials, skill books and fireworks by purchasing prepaid game cards or game points. We initially operated BO under the time-based revenue model and switched to the item-based revenue model in December 2006. We report our game operations revenues after netting business taxes, sales discounts and rebates to our distributors.

Overseas Licensing Revenues

We began licensing our game TLBB to operators outside of China in 2007. We began generating overseas licensing revenues from TLBB in Malaysia and Singapore in April 2009, in Taiwan and Hong Kong in April 2008, and in Vietnam in August 2007. The licenses are for terms of either two years or three years. Under our licensing arrangements, the licensee operators pay us an initial license fee and ongoing royalties based on a percentage of revenues generated by them over the term of the license period.

Our overseas licensing revenues were $1.9 million for the three months ended March 31, 2010, compared to $2.3 million for the three months ended March 31, 2009. The decrease was largely the result of greater competition in mature online game markets abroad.

Revenue Collection

Game Operations

We sell virtual and physical prepaid game cards to regional distributors, who in turn sub-distribute to retail outlets, including Internet cafés, various Websites, news stands, software stores, bookstores and retail stores. We typically collect payment from our distributors upon delivery of our prepaid game cards, but only recognize revenues as the virtual items are consumed. We generally offer a sales discount to our prepaid game card distributors based on the popularity of our games. In addition, we offer a discount to our game players who directly purchase virtual prepaid game cards and game points from our online sales system. The sales discount represents the difference between the price at which we sell prepaid game cards to distributors or game players, as the case may be, and the face value of the prepaid game cards or the equivalent of game points.

We also offer rebates in the form of credits on future purchases of prepaid game cards to distributors of our prepaid game cards. Distributors of prepaid game cards will receive a credit on future purchases of our prepaid game cards provided that the distributors meet certain preset sales conditions. Historically, most of our distributors have met the conditions required to receive these credits. Credits are in the form of free prepaid game cards.

Overseas Licensing

Our overseas licensing revenues consist of an initial license fee and ongoing revenue-based royalties. The initial license fee includes a fixed amount payable upon signing the license agreement and additional license fees payable upon achieving certain sales targets. The ongoing revenue-based royalties are generally determined based on the amount charged to game players' accounts in a given country or region and sales of ancillary products of the game in such country or region. We typically receive ongoing revenue-based royalties on a monthly basis.

Revenue Recognition

Game Operations

Proceeds received from sales of prepaid game cards form the basis of our revenues and are recorded initially as receipts in advance. Upon activation of the prepaid game cards, proceeds are transferred from receipts in advance to deferred revenues. Proceeds received from online sales of game points directly to game players are recorded as deferred revenues. As of March 31, 2010, we had receipts in advance from distributors and deferred revenues from our game operations of $26.2 million, compared to $29.6 million as of December 31, 2009.

We recognize revenues when virtual items purchased by game players are consumed. For consumable virtual items, including those with a predetermined expiration time, revenues are recognized as they are consumed, and for perpetual virtual items, revenues are recognized over their estimated lives. In addition, prepaid game cards will expire two years after the date of card production if they have never been activated. The proceeds from the expired game cards are recognized as revenues upon expiration of the cards. In contrast, once the prepaid game cards are activated and credited to a game player's account, they will not expire as long as the game account remains active. We are entitled to close a game player's account if it has been inactive for a period of 180 consecutive days. The unused balances in an inactive game player's account are recognized as revenues when the account is closed. For the three months ended March 31, 2010, revenue from expired game cards and inactive game players' accounts was $0.1 million.

Overseas Licensing

For the initial license fees receivable under our overseas licensing agreements, we recognize revenues ratably over the remaining license period, during which we are obligated to provide post-sales services such as technical support and provision of updates or upgrades to the licensed games. Unrecognized initial license fees received are recorded as deferred revenues. As of March 31, 2010, such deferred revenues were $1.2 million, compared to $0.6 million as of December 31, 2009. With respect to ongoing revenue-based royalties, we recognize revenues when the revenue-based royalties are earned under the terms of the overseas licensing agreements, and the collection of such royalties is probable.

Wireless and Others Revenues

Wireless Revenues

Wireless revenues were $13.3 million for the three months ended March 31, 2010, compared to $13.4 million for the three months ended March 31, 2009.

We expect wireless revenues to decrease in the second quarter of 2010 compared to the first quarter of 2010, due to mobile network operators tightening their controls over wireless services.

Revenues for Other Services

Other services mainly consist of sales of software to third parties, provision of applications service provider ("ASP") services, office space rental income and construction of Websites. Revenues for other services were $1.8 million for the three months ended March 31, 2010, compared to $0.1 million for the three months ended March 31, 2009.

COSTS AND EXPENSES

Cost of Revenues

The following table presents our cost of revenues by source and by proportion for the periods indicated:

	Three Months Ended March 31, 2010		2009		2010 VS 2009
	(in thousands, except percentages)				
Cost of revenues:					
Advertising:					
Brand advertising	$17,283	53%	$13,730	50%	$ 3,553
Sponsored search	2,913	9%	2,298	8%	615
Subtotal of cost of advertising revenues	20,196	62%	16,028	58%	4,168
Online game	5,384	16%	3,436	12%	1,948
Wireless and others	7,246	22%	8,129	30%	(883)
Total cost of revenues	$32,826	100%	$27,593	100%	$ 5,233

Total cost of revenues was $32.8 million for the three months ended March 31, 2010, compared to $27.6 million for the three months ended March 31, 2009. The year-on-year increase in total cost of revenues for the first quarter of 2010 was $5.2 million. The increase was mainly attributable to increased cost of brand advertising revenues and cost of online game revenues.

Cost of Advertising Revenues

Cost of advertising revenues was $20.2 million for the three months ended March 31, 2010, compared to $16.0 million for the three months ended March 31, 2009. The year-on-year increase in cost of advertising revenues for the first quarter of 2010 was $4.2 million. The increase was mainly due to the increase in cost of brand advertising revenues.

Cost of Brand Advertising Revenues

Cost of brand advertising revenues includes compensation and related overhead costs for employees, depreciation expenses, content and services purchases, bandwidth leasing costs, and revenue sharing payments to third parties.

Cost of brand advertising revenues increased by $3.6 million to $17.3 million for the three months ended March 31, 2010 from $13.7 million for the three months ended March 31, 2009. The year-on-year increase was primarily attributable to investment in Sohu's video site, mainly bandwidth and content, and organic cost growth, mainly consisting of a $1.7 million increase in bandwidth leasing costs, a $0.7 million increase in share-based compensation expense and a $0.6 million increase in salary and benefits expenses.

Our brand advertising gross margin was 56% and 65% for the three months ended March 31, 2010 and 2009, respectively. The decrease in our brand advertising gross margin was due to an increase in cost of brand advertising revenues discussed above, with brand advertising revenues being almost flat with last year.

Cost of Sponsored Search Revenues

Cost of sponsored search revenues mainly consists of depreciation expenses, bandwidth leasing costs, payments to our Website Alliance and personnel costs.

Cost of sponsored search revenues was $2.9 million for the three months ended March 31, 2010, compared to $2.3 million for the three months ended March 31, 2009. The year-on-year increase in cost of sponsored search revenues for the first quarter of 2010 was $0.6 million.

The increase mainly consisted of a $0.4 million increase in payments to our Website Alliance and a $0.2 million increase in depreciation and bandwidth leasing costs.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of salary and benefits expenses, including share-based compensation expense, relating to the operation of our games, revenue-based royalty payments to the developers of our licensed games, bandwidth leasing costs, amortization of licensing fees, depreciation expenses, and PRC business tax and value added tax (“VAT”) arising from transactions between Changyou’s subsidiary and its VIE.

Cost of online game revenues was $5.4 million for the three months ended March 31, 2010, compared to $3.4 million for the three months ended March 31, 2009. The year-on-year increase in cost of online game revenues for the first quarter of 2010 was $2.0 million.

The increase mainly consisted of a $1.0 million increase in salary and benefits expenses, which was attributable to the increased size of our workforce; a $0.2 million increase in bandwidth leasing and communication costs; and a $0.2 million increase in PRC business tax and VAT arising from transactions between Changyou’s subsidiary and its VIE. These changes were primarily due to the increased popularity of TLBB.

Our online game gross margin was 93% and 94%, respectively, for the three months ended March 31, 2010 and 2009.

We expect that revenue-based royalty payments will increase in the second quarter of 2010 compared to the first quarter of 2010, as another licensed game in our pipeline is to be launched.

Cost of Wireless and Others Revenues

Cost of Wireless Revenues

Cost of wireless revenues consists of collection charges and transmission fees paid to mobile network operators, payments to third party wireless service alliances and content suppliers, penalties, depreciation expenses, and bandwidth leasing costs.

Cost of wireless revenues was $6.9 million for the three months ended March 31, 2010, compared to $7.6 million for the three months ended March 31, 2009. The year-on-year decrease in cost of wireless revenues for the first quarter of 2010 was $0.7 million.

The decrease was mainly due to decreased payments to third party wireless service alliances and content providers.

The collection and transmission charges vary between mobile network operators. The collection and transmission charges mainly include (i) a gateway fee of $0.003 to $0.029 per message, depending on the volume of the monthly total wireless messages, in the first quarter of 2010, unchanged from the first quarter of 2009 and (ii) a collection fee of 15% to 75% of total fees collected by mobile network operators from mobile phone users (with the residual paid to us) in the first quarter of 2010, compared to15% to 70% in the first quarter of 2009.

Our wireless gross margin was 48% and 43%, respectively, for the three months ended March 31, 2010 and 2009.

Cost of Revenues for Other Services

Cost of revenues for other services mainly consists of personnel and other expenses in connection with sales of software, provision of ASP services and construction of Websites. Cost of revenues for other services was $0.3 million for the three months ended March 31, 2010, compared to $0.5 million for the three months ended March 31, 2009.

Operating Expenses

The following table presents our operating expenses by nature and by proportion for the periods indicated:

	Three Months Ended March 31,				
	2010		2009		2010 VS 2009
	(in thousands, except percentages)				
Operating expenses:					
Product development	$15,518	32%	$13,314	35%	$ 2,204
Sales and marketing	23,009	47%	16,826	44%	6,183
General and administrative	9,883	20%	7,894	21%	1,989
Amortization of intangible assets	108	1%	74	0%	34
Total operating expenses	$48,518	100%	$38,108	100%	$ 10,410

Total operating expenses were $48.5 million for the three months ended March 31, 2010, compared to $38.1 million for the three months ended March 31, 2009. The year-on-year increase in total operating expenses for the first quarter of 2010 was $10.4 million. The increase in total operating expenses was mainly due to increases in expenses for sales and marketing.

Product Development Expenses

Product development expenses mainly consist of personnel-related expenses incurred for enhancement to and maintenance of our Websites as well as costs associated with new product development and enhancement for existing products and services.

Product development expenses were $15.5 million for the three months ended March 31, 2010, compared to $13.3 million for the three months ended March 31, 2009. The year-on-year increase in product development expenses for the first quarter of 2010 was $2.2 million.

The increase mainly consisted of a $1.2 million increase in share-based compensation expense primarily for restricted share units granted in January 2010 and a $0.5 million increase in facility expenses.

Sales and Marketing Expenses

Sales and marketing expenses mainly consist of advertising and promotional expenditures, compensation expenses, sales commissions and travel expenses.

Sales and marketing expenses were $23.0 million for the three months ended March 31, 2010, compared to $16.8 million for the three months ended March 31, 2009. The year-on-year increase in sales and marketing expenses for the first quarter of 2010 was $6.2 million.

The increase was mainly due to a $4.2 million increase in advertising and promotion expenses mainly for our online game business, a $1.1 million increase in salary and benefits expenses and a $0.7 million increase in share-based compensation expense primarily for restricted share units granted in January 2010.

General and Administrative Expenses

General and administrative expenses mainly consist of personnel compensation expenses and professional service fees.

General and administrative expenses were $9.9 million for the three months ended March 31, 2010, compared to $7.9 million for the three months ended March 31, 2009. The year-on-year increase in general and administrative expenses for the first quarter of 2010 was $2.0 million.

The increase was mainly due to an increase in share-based compensation expense for restricted share units granted in January 2010.

Amortization of Intangible Assets

Amortization of intangible assets was mainly related to the acquisitions of 17173.com, Focus.cn, GoodFeel and Go2Map.

Amortization of intangible assets was $0.1 million for the three months ended March 31, 2010 and 2009.

Share-based Compensation Expense

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

Share-based compensation expense was recognized in costs and expenses for the three months ended March 31, 2010 and March 31, 2009, respectively, as follows (in thousands):

Share-based compensation expense	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Cost of revenues	$ 1,035	$ 247
Product development expenses	2,445	1,274
Sales and marketing expenses	955	285
General and administrative expenses	2,093	481
	$ 6,528	$ 2,287

The increase mainly resulted from restricted share units granted by Sohu in January 2010.

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

Share-based compensation expense	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
For share awards granted by Sohu.com Inc.	$ 3,585	$ 1,570
For share awards granted by Changyou.com Limited	2,943	717
	$ 6,528	$ 2,287

For share options granted by Sohu, as of March 31, 2010 there was no unrecognized compensation expense because the requisite service periods for the remaining options had expired by the end of 2009. For restricted share units granted by Sohu, as of March 31, 2010 there was $29.2 million of related unrecognized compensation expense.

For share awards granted by Changyou, as of March 31, 2010 there was $11.6 million of related unrecognized compensation expense.

Operating Profit

As a result of the foregoing, our operating profit was $48.1 million for the three months ended March 31, 2010, compared to $50.0 million for the three months ended March 31, 2009, or a year-on-year decrease of $1.9 million.

Other (Expense) Income

Other expense was $25,000 for the three months ended March 31, 2010, compared to $1,000 other income for the three months ended March 31, 2009.

Interest Income and Exchange Difference

Interest income and exchange difference, mainly consisting of interest income, was $1.2 million for the three months ended March 31, 2010, compared to $1.1 million for the three months ended March 31, 2009.

Income Tax Expense

Income tax expense was $8.0 million for the three months ended March 31, 2010, compared to $6.6 million for the three months ended March 31, 2009.

The increase in the first quarter of 2010 was mainly due to increased revenue from the online game business. In addition, this increase included $0.5 million of utilization of excess tax benefits from existing U.S. Corporate Income Tax net operating losses generated from excess tax deductions related to share-based awards, which reduced our recognition of taxes payable in 2010 for U.S. GAAP purposes. This excess tax benefit was correspondingly treated as an increase in shareholders' equity in the consolidated balance sheet and presented as a cash outflow from operating activities and a cash inflow from financing activities. Realizing this benefit reduced the amount of taxes payable and does not otherwise affect cash flows.

Net Income

As a result of the foregoing, for the three months ended March 31, 2010, we had net income of $41.3 million, including net income of $1.6 million from segments other than online game and $39.7 million from the online game segment.

For the three months ended March 31, 2009, we had net income of $44.6 million, including net income of $11.1 million from segments other than online game and $33.5 million from the online game segment.

Net Income (Loss) Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest was $11.1 million for the three months ended March 31, 2010, compared to a net loss of $21,000 for the three months ended March 31, 2009.

For the three months ended March 31, 2010, 28% of the economic interest in Changyou and 30% of the economic interest in 21 East which was attributable to shareholders other than Sohu has been recognized as noncontrolling interest in Sohu's consolidated statements of operations.

For the three months ended March 31, 2009, 30% of the economic interest in 21 East which was attributable to shareholders other than Sohu has been recognized as noncontrolling interest in Sohu's consolidated statements of operations.

We expect the noncontrolling interest recognized for Changyou to increase in the second quarter of 2010, compared to the first quarter of 2010.

Net Income attributable to Sohu.com Inc.

As a result of the foregoing, we had net income attributable to Sohu of $30.2 million for the three months ended March 31, 2010, compared to $44.6 million for the three months ended March 31, 2009.

The decrease in net income attributable to Sohu was due to an increase in net income attributable to noncontrolling interest discussed above, with net income being almost flat with last year.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are cash and cash equivalents, marketable securities, as well as cash flow generated from our operations. As of March 31, 2010, we had cash and cash equivalents of approximately $599.2 million, compared to $373.2 million as of March 31, 2009. For the three months ended March 31, 2010 and 2009, cash equivalents primarily comprise time deposits.

On November 20, 2009, we entered into an agreement to purchase an office building to be built in Beijing, which will serve as our headquarters, for a purchase price of approximately $110 million denominated in RMB, of which $22 million had been paid as of March 31, 2010 and was recognized as other assets in Sohu's consolidated financial statements. The remaining $88 million will be paid in installments as various stages of the development plan are completed. The estimated payment in 2010 is around $49 million. This construction is expected to be completed by the end of 2012.

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

Cash Generating Ability

Our cash flows were summarized below (in thousands):

	Three Months Ended March 31,	
	2010	2009
Net cash provided by operating activities	$ 42,929	$ 56,685
Net cash (used in) provided by investing activities	(8,423)	123
Net cash provided by financing activities	783	1,889
Effect of exchange rate change on cash and cash equivalents	82	44
Net increase in cash and cash equivalents	35,371	58,741
Cash and cash equivalents at beginning of period	563,782	314,425
Cash and cash equivalents at end of period	$ 599,153	$ 373,166

Net Cash Provided by Operating Activities

For the three months ended March 31, 2010, $42.9 million net cash provided by operating activities was primarily attributable to our net income of $41.3 million, adjusted by non-cash items of share-based compensation expense of $6.5 million, depreciation and amortization of $5.1 million and other miscellaneous non-cash expense of $0.2 million, offset by a net decrease in cash from working capital items of $9.7 million and $0.5 million excess tax benefits. In accordance with U.S. GAAP, the $0.5 million excess tax benefits were presented as a reduction of cash flows from operating activities and a cash inflow from financing activities. Realizing this benefit reduced the amount of taxes payable and does not otherwise affect cash flows.

For the three months ended March 31, 2009, $56.7 million net cash provided by operating activities was primarily attributable to our net income of $44.6 million, adjusted by non-cash items of share-based compensation expense of $2.3 million, depreciation and amortization of $4.2 million and a net increase in cash from working capital items of $5.6 million.

Net Cash (Used in) Provided by Investing Activities

For the three months ended March 31, 2010, $8.4 million net cash used in investing activities was primarily attributable to $7.2 million used in acquiring fixed assets and other assets and $1.2 million used in acquisition.

For the three months ended March 31, 2009, $0.1 million net cash provided by investing activities was primarily attributable to a $2.3 million decrease in restricted cash, offset by $2.2 million used in acquiring fixed assets.

Net Cash Provided by Financing Activities

For the three months ended March 31, 2010, $0.8 million net cash provided by financing activities was primarily attributable to $0.3 million from the issuance of common stock upon the exercise of share options granted under our stock incentive plan and $0.5 million in tax benefits mentioned above in "*Net Cash Provided by Operating Activities*."

For the three months ended March 31, 2009, $1.9 million net cash provided by financing activities was primarily attributable to issuance of common stock upon the exercise of share options granted under our stock incentive plan.

Cash and cash equivalents

As of March 31, 2010, we had cash and cash equivalents of approximately $599.2 million compared to $563.8 million as of December 31, 2009.

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

Restrictions on Cash Transfers to Sohu.com Inc.

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

Substantially all of Changyou's operations are conducted through Gamease, a VIE, which generates all of our online game revenues. As Gamease is not owned by AmazGame, Changyou's subsidiary in China, it is not able to make dividend payments to AmazGame. Instead, AmazGame has entered into a number of contracts with Gamease to provide services to Gamease in return for cash payments. In order for us to receive any dividends, loans or advances from AmazGame through Changyou, or to distribute any dividends to our shareholders, we may need to rely on these payments made from Gamease to AmazGame. Depending on the nature of services provided by AmazGame to Gamease, certain of these payments are subject to PRC taxes, including business taxes and value added tax, which effectively reduce the amount that AmazGame receives from Gamease. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

In addition, 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"), are also required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their general reserves until the cumulative amount reaches 50% of their paid-in capital. These reserves are not distributable as cash dividends, or as loans or advances. These 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 Changyou and/or to Sohu.com Limited and, accordingly, would not be available for distribution to Sohu.

Also, under regulations of the 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 China, unless prior approval of the SAFE is obtained and prior registration with the SAFE is made.

With respect to PRC tax, any dividends paid by WFOEs to their immediate Hong Kong holding companies are subject to a withholding tax at the rate of 5%, which would reduce the amount of cash available for distribution to Sohu.

With respect to U.S. tax, as Sohu Group has two listed companies, Sohu.com Inc. and Changyou.com Limited, which are regarded as separate legal entities for U.S. tax purposes, certain transactions between these two companies as well as between their subsidiaries and VIEs might expose Sohu.com Inc. to 34% or 35% U.S. Corporate Income Tax. In addition, certain transactions of Changyou and its subsidiaries and VIEs (for example, investing in U.S. properties) might also expose Sohu.com Inc. to the risk that these transactions will be treated as taxable for U.S. tax purposes. Moreover, if Changyou pays dividends, Sohu.com Inc., as one of the shareholders of Changyou, might be subject to U.S. tax at 34% or 35% for the dividends received or, under certain circumstances, when Sohu sells Changyou American depositary shares originally held by Sohu at a price higher than its U.S. tax basis, a portion of the proceeds will be subject to U.S. tax at 34% or 35%. Furthermore, any dividends or any deemed dividends received by Sohu.com Inc. would be subject to U.S. Tax at 34% or 35%.

We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations.

Dividend Policy

The two listed companies within the Sohu Group, Sohu.com Inc. and Changyou.com Limited, do not expect to pay dividends on their common stock and ordinary shares, respectively, in the foreseeable future. The Sohu Group currently intends to retain all available funds and any future earnings for use in the operation and expansion of its business, and does not anticipate paying any cash dividends on Sohu.com Inc.'s common stock or on Changyou.com Limited's ordinary shares, including on ordinary shares represented by Changyou.com Limited's American depositary shares ("ADSs"), for the foreseeable future.

Future cash dividends distributed by Sohu.com Inc. and Changyou.com Limited, if any, will be declared at the discretion of their respective boards of directors and will depend upon their future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors as their respective boards of directors may deem relevant.

Holders of ADSs of Changyou.com Limited will be entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as the holders of Changyou.com Limited's ordinary shares, less the fees and expenses payable under the deposit agreement. Any cash dividends will be paid by the depositary to holders of ADSs in U.S. dollars, subject to the terms of the deposit agreement. Other distributions, if any, will be paid by the depositary to holders of ADSs in any manner that the depositary deems equitable and practicable.

On April 1, 2009, Changyou.com Limited declared a cash dividend of $96.8 million payable solely to Sohu.com (Game) Limited, which is an indirect wholly-owned subsidiary of Sohu.com Inc. In the fourth quarter of 2009, after receiving approval from the PRC government, Changyou.com Limited paid the dividend to Sohu.com (Game) Limited. Changyou.com Limited's only other shareholder on April 1, 2009, Prominence Investments Ltd., a British Virgin Islands company beneficially owned by Tao Wang, Chief Executive Officer of Changyou, was not entitled to participate in the dividend.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2009, the FASB issued new guidance on revenue recognition for arrangements with multiple deliverables and certain revenue arrangements that include software elements. By providing another alternative for determining the selling price of deliverables, the guidance for arrangements with multiple deliverables will allow companies to allocate consideration in multiple deliverable arrangements in a manner that better reflects the transaction's economics and will often result in earlier revenue recognition. The new guidance modifies the fair value requirements of previous guidance by allowing "best estimate of selling price" in addition to vendor-specific objective evidence ("VSOE") and other vendor objective evidence ("VOE," now referred to as "TPE," standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted under the new guidance. The new guidance for certain revenue arrangements that include software elements removes non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance, resulting in the recognition of revenue similar to that for other tangible products. The new guidance is effective for fiscal years beginning on or after June 15, 2010. However, companies may adopt the guidance as early as interim periods ended September 30, 2009. The guidance may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We have not early adopted the new guidance and are currently evaluating the impact on our consolidated financial statements of adopting this guidance.

In December 2009, the FASB issued Consolidations - Improvements to Financial Reporting by Enterprises Involved with VIEs. The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The new disclosure requirements were effective on January 1, 2010. We have adopted the new guidance in the first quarter of 2010 and the adoption did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued an update to existing standards on fair value measurements, which requires new disclosures about inputs and valuation techniques used in recurring and non-recurring fair value measurements and about significant transfers between the three levels of fair value measurements. The new disclosure requirements are effective for interim and annual periods beginning after December 15, 2009. We have adopted the new guidance in the first quarter of 2010 and the adoption did not have a material impact on our consolidated financial statements.

In February 2010, the FASB issued an update to existing standards on subsequent events. Among the various amendments, the FASB removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The new guidance is effective upon issuance. We have adopted the new guidance in the first quarter of 2010 and the adoption did not have a material impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

FOREIGN CURRENCY EXCHANGE RATE RISK

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

The RMB is currently freely convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the U.S. dollar. The exchange rate of the RMB against the U.S. dollar was adjusted to RMB 8.11 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. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure. Accordingly, we may incur economic losses in the future due to foreign exchange rate fluctuations, which could have a negative impact on our financial condition and results of operations.

The following table sets forth a summary of our foreign currency sensitive financial instruments as of March 31, 2010, which consisted of cash and cash equivalents, account receivables, prepaid and other current assets, and current liabilities. The maturity of those financial instruments was less than one year and their book value approximated fair value.

	Denominated in (in thousands)			
	US$	RMB	HK$	Total
Cash and cash equivalents	$270,122	$327,633	$1,398	$599,153
Account Receivables	706	47,076	67	47,849
Prepaid and other current assets	2,242	10,235	6	12,483
Current liabilities	5,861	140,702	225	146,788

As aforementioned in Note 6 - Commitments and Contingencies – Contractual Obligation, the $88 million that remains due for our office building purchase will be settled in RMB.

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. 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.

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 related to Sohu required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in the legal proceedings reported in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 26, 2010.

ITEM 1A. RISK FACTORS

There are no material changes or updates to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 26, 2010.

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

Use of Proceeds

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

During the three months ended March 31, 2010, Sohu did not use any proceeds from the offering. The remaining net proceeds from the offering have been invested in cash and cash equivalents. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the Exhibit Index attached hereto.

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SIGNATURES

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

Dated: May 7, 2010

SOHU.COM INC.

By: /S/ CAROL YU

Carol Yu
Co-President and Chief Financial Officer

Sohu.com Inc.

Quarterly Report on Form 10-Q for Quarter Ended March 31, 2010

EXHIBITS INDEX

10.1	Employment Agreement effective as of November 30, 2009, entered into on March 30, 2010, between Sohu.com Inc. and Xiaochuan Wang
10.2	Amended and Restated Marketing Services Agreement, dated January 1, 2010, by and between Sohu.com Inc. and Changyou.com Limited
31.1	Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
31.2	Rule 13a-14(a)/15d-14(a) Certification of Carol Yu
32.1	Section 1350 Certification of Charles Zhang
32.2	Section 1350 Certification of Carol Yu

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, effective as of November 30, 2009, by and between Sohu.com Inc., a Delaware corporation, and Xiaochuan Wang, an individual (the "Employee").

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

2. Employment; Duties.

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

(b) The Employee hereby agrees to devote his or her full time and best efforts in such capacities as are set forth on Annex 2 on the terms and conditions set forth herein. Notwithstanding the foregoing, the Employee may engage in other activities, such as activities involving professional, charitable, educational, religious and similar types of organizations, provided the Employee complies with the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement attached hereto as Annex 3 (the "Employee Obligations Agreement") and such other activities do not interfere with or prohibit the performance of the Employee's duties under this Agreement, or conflict in any material way with the business of the Company or of its subsidiaries and affiliates. The Employee Obligations Agreement will be effective as of the date hereof and will have full force and effect with respect to, or arising in connection with, all matters on or after the date hereof.

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

3. Compensation.

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

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

(c) Stock Options and Restricted Stock Units. The Employee will be eligible to participate in any stock option, restricted stock unit, or other equity incentive program available to officers or employees of the Company.

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

4. Other Employee Benefits.

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

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

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

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

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

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

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

6. Term; Termination.

(a) Unless sooner terminated pursuant to the provisions of this Section 6, the term of this Agreement (the "Term") will commence on the date hereof and end on November 29, 2012.

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

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

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

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

(f) Misconduct After Termination of Employment. Notwithstanding the foregoing or anything herein to the contrary, if the Employee after the termination of his or her employment violates or fails to fully comply with the Employee Obligations Agreement, thereafter (1) the Employee shall not be entitled to any payments from the Company, (2) any insurance or other benefits that have continued shall terminate immediately, (3) the Employee shall promptly reimburse to the Company all amounts that have been paid to the Employee pursuant to this Section 6; and (4) if the Employee would not, in the absence of such violation or failure to comply, have been entitled to severance payments from the Company equal to at least six (6) months' base salary, pay to the Company an amount equal to the difference between six (6) months' base salary and the amount of severance pay measured by base salary reimbursed to the Company by the Employee pursuant to clause 3 of this sentence.

7. Share-Based Compensation-Related Provisions.

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

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

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

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

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

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

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

(b) if to the Company:

Sohu.com Inc.
Level 12, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084
People's Republic of China
Attention: Charles Zhang
Chairman and Chief Executive Officer
fax: (86-10) 5872-2777

with a copy to:
Goulston & Storrs
400 Atlantic Avenue
Boston, MA 02110
Attention: Timothy B. Bancroft
fax: (617) 574-7568

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

11. Miscellaneous.

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

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

Signature of Employee:	Sohu.com Inc.
______________________________	By: ______________________________
Printed name of employee:	Name: Charles Zhang
Xiaochuan Wang	Title: Chief Executive Officer

Annex 1

Certain Definitions

"Cause" means:

(i) willful misconduct or gross negligence by the Employee, or any willful or grossly negligent omission to perform any act, resulting in injury to the Company or any subsidiaries or affiliates thereof;

(ii) misconduct or negligence of the Employee that results in gain or personal enrichment of the Employee to the detriment of the Company or any subsidiaries or affiliates thereof;

(iii) breach of any of the Employee's agreements with the Company, including those set forth herein and in the Employee Obligations Agreement, and including, but not limited to, the repeated failure to perform substantially the Employee's duties to the Company or any subsidiaries or affiliates thereof, excessive absenteeism or dishonesty;

(iv) any attempt by the Employee to assign or delegate this Agreement or any of the rights, duties, responsibilities, privileges or obligations hereunder without the prior consent of the Company (except in respect of any delegation by the Employee of his or her employment duties hereunder to other employees of the Company in accordance with its usual business practice);

(v) the Employee's indictment or conviction for, or confession of, a felony or any crime involving moral turpitude under the laws of the United States or any State thereof, or under the laws of China, or Hong Kong;

(vi) declaration by a court that the Employee is insane or incompetent to manage his or her business affairs;

(vii) habitual drug or alcohol abuse which materially impairs the Employee's ability to perform his or her duties; or

(viii) filing of any petition or other proceeding seeking to find the Employee bankrupt or insolvent.

"Change in Control" means the occurrence of any of the following events:

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

(ii) during any period of two (2) consecutive years after the date of this Agreement, individuals who at the beginning of such period constitute the Board of Directors of the Company, and all new directors (other than directors designated by a person who has entered into an agreement with the Company to effect a transaction described in (i), (iii), or (iv) of this definition) whose election or nomination to the Board was approved by a vote of at least two-thirds of the directors then in office, cease for any reason to constitute at least a majority of the members of the Board;

(iii) the effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;

(iv) the complete liquidation of the Company or the sale or disposition by the Company of all or substantially all of the Company's assets; or

(v) there occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

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

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

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

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

(ii) any material breach by the Company of this Agreement, including without limitation any reduction of the Employee's base salary or the Company's failure to pay to the Employee any portion of the Employee's compensation; or

(iii) the failure, in the event of a Change in Control in which the Company is not the surviving entity, of the surviving entity or the successor to the Company's business to assume this Agreement pursuant to its terms or to offer the Employee employment on substantially equivalent terms to those set forth in this Agreement.

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

Annex 2

Particular Terms of Employee's Employment

Title(s): Chief Technology Officer

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

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

Base Salary: $180,000 per year, subject to adjustment by the Board of Directors from time to time.

# of Weeks of Paid Vacation per Year: Three (3)

Other Benefits:

Annual allowance or reimbursement after tax of U.S. $30,000 per year.
Health, life and disability insurance as per company policy.
Bonus (50% of annual base pay will be the Employee's target bonus, based on the senior management bonus plan in effect from time to time) as specifically approved each year.

Annex 3

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

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

1. Non-Competition. During my employment with SOHU and continuing after the termination of my employment for the longer of (i) one year after the termination of my employment with SOHU for any reason and (ii) such period of time as SOHU is paying to me any severance benefits, (the "Noncompete Period"), I will not, on my own behalf, or as owner, manager, stockholder (other than as stockholder of less than 2% of the outstanding stock of a company that is publicly traded or listed on a stock exchange), consultant, director, officer or employee of or in any other manner connected with any business entity, participate or be involved in any Competitor without the prior written authorization of SOHU. "Competitor" means any business of the type and character of business in which SOHU engages or proposes to engage and may include, without limitation, an individual, company, enterprise, partnership enterprise, government office, committee, social organization or other organization that, in any event, produces, distributes or provides the same or substantially similar kind of product or service as SOHU. On the date of this Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement (this "Agreement"), "Competitor" includes without limitation: Sina.com, QQ Tencent Holdings Limited, NetEase.com Inc., Perfect World Co., Giant Interactive Group Inc., Shanda Games Limited, NetDragon Websoft Inc., Kingsoft Corporation Limited, The9 Limited, Beijing Guangyu Huaxia Technology Limited., You Ku, Tu Dou, Ku6, PC Online, SouFun, CRIC, SoSo, Baidu, Google, Yahoo! China, Yahoo! Inc., Microsoft/MSN, AOL, Kongzhong.com, Xunlei, Taobao and 360. Such list may be updated by the Company from time to time so that it is consistent with the list of competitors disclosed in the Company's quarterly report (10Q) or annual report (10K).

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

3. Confidential Information.

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

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

4. Rights in Work Product.

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

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

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

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

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

(a) In the prosecution or applications for letters patent, foreign and domestic, or re-issues, extensions and continuations thereof;

(b) In the prosecution or defense of interferences which may be declared involving any of said applications or patents;

(c) In any administrative proceeding or litigation in which SOHU may be involved relating to any Work Product; and

(d) In the execution of documents and the taking of all other lawful acts which SOHU considers necessary or advisable in creating and protecting its copyright, patent, trademark, trade secret and other proprietary rights in any Work Product.

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

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

"Termination Certificate

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

8. General Provisions.

(a) This Agreement contains the entire agreement between me and SOHU with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings related to the subject matter hereof, whether written or oral. This Agreement may not be modified except by written agreement signed by SOHU and me.

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

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

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

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

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

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

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

Effective as of November 30, 2009.

Signature of Employee:	Sohu.com Inc.
______________________________	By: ______________________________
Printed name of employee:	Name: Charles Zhang
Xiaochuan Wang	Title: Chief Executive Officer

AMENDED AND RESTATED MARKETING SERVICES AGREEMENT

This Amended and Restated Marketing Services Agreement (the “Agreement”) is dated as of January 1, 2010, by and between Changyou.com Limited, a Cayman Islands corporation (together with its subsidiaries and VIEs, “Changyou”)and Sohu.com Inc., a Delaware corporation (together with its subsidiaries and VIEs other those subsidiaries and VIEs included in the definition of Changyou, “Sohu”). Sohu and Changyou are individually referred to as a “Party,” and together as the “Parties.” Capitalized terms used herein and not otherwise defined will have the meanings ascribed to such terms in Article I hereof.

RECITALS

WHEREAS, Sohu operates a leading Chinese web portal, Sohu.com;

WHEREAS, Changyou develops, operates, and licenses MMORPGs (as defined below), as more completely described in a Registration Statement on Form F-1 first filed publicly by Changyou with the U.S. Securities and Exchange Commission (the “SEC”) on March 17, 2009 (the “Filing Date”) (as so filed, and as amended thereafter from time to time, the “IPO Registration Statement”);

WHEREAS, Changyou subsequently made an initial public offering (“IPO”) pursuant to the IPO Registration Statement;

WHEREAS, Sohu controls the voting power of the outstanding ordinary shares of Changyou;

WHEREAS, Sohu and Changyou have undertaken various advertising and marketing efforts relating to their businesses in accordance with a Marketing Services Agreement dated as of January 1, 2009 (the Predecessor Agreement);

WHEREAS, Sohu and Changyou wish to clarify, modify and redefine the terms and conditions of certain advertising and marketing efforts known as the Specified Transactions (as defined below); and

WHEREAS, Sohu and Changyou desire to clarify and modify the terms and conditions of the Predecessor Agreement and to continue their advertising and marketing efforts in accordance with the terms and conditions of this Agreement;

NOW, THEREFORE, in consideration of the foregoing and the terms, conditions, covenants and provisions of this Agreement, and intending to be legally bound, Sohu and Changyou mutually covenant and agree as follows:

ARTICLE I
DEFINITIONS

1.1 Defined Terms. The following capitalized terms have the meanings given to them in this Section 1.1:

“Affiliate” means any entity that controls, is controlled by, or is under common control with a Party. As used herein, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities or other interests, by contract or otherwise. Solely for purposes of this Agreement, however, Changyou and Sohu are deemed not to be Affiliates.

“Agreement” means this Amended and Restated Marketing Services Agreement, as the same may be amended and supplemented from time to time in accordance with the provisions hereof.

“Changyou” will have the meaning set forth in the preamble to this Agreement.

“Changyou Business” means the development, operation and licensing of client-end installed MMORPGs and other support services, as previously conducted by Sohu and as conducted and contemplated to be conducted by Changyou on a world-wide basis as of the date hereof and the date that the IPO Registration Statement becomes effective under the U.S. Securities Act of 1933, as more fully described in the IPO Registration Statement.

“Changyou MMORPGs” means MMORPGs that are owned, controlled or maintained by Changyou or its Affiliates.

“Changyou Links” has the meaning set forth in Section 2.1(a) of this Agreement.

“Changyou Websites” means all websites owned, controlled or maintained by Changyou.

“Deliverables” has the meaning set forth in Section 7.1 of this Agreement.

“IPO” has the meaning set forth in the preamble of this Agreement.

“Inter-Company Agreements” has the meaning ascribed to it in the Master Transaction Agreement.

“Filing Date” has the meaning set forth in the preamble of this Agreement.

“Master Transaction Agreement” means the Master Transaction Agreement between the Parties dated as of January 1, 2009, as the same may be amended from time to time.

“MMORPGs” means client-end installed massively multi-player online role-playing games.

“SEC” has the meaning set forth in the preamble to this Agreement.

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

"Sohu" has the meaning set forth in the preamble to this Agreement.

"Sohu Websites" means all websites owned, operated or controlled by Sohu, including, without limitation, Sohu.com, Chinaren.com, and 17173.com, but not including Changyou Websites.

"VIE" means a variable interest entity, as such term is defined for the purposes of generally accepted U.S. accounting principles.

ARTICLE II
LINKS AND ADVERTISING SERVICES

2.1 Links and Advertising Services.

(a) Links. Sohu will include at all times while this Agreement is in effect links (such links, collectively, "Changyou Links") to Changyou's MMORPGs or to the Changyou.com homepage, on the Sohu.com homepage, in at least as prominent a location as Changyou Links are currently included. Exhibit I is a screenshot showing the two links that Changyou is using as of the date of this Agreement.

(b) Advertising. At all times while this Agreement is in effect, Sohu will provide to Changyou (1) the use of advertising space, and (2) access to certain advertising services. The use of advertising space and the provision of services are related to Changyou's MMORPGs' promotional activities in the areas of online advertisements, banners, buttons and other online advertising mediums.

(A) In particular, Sohu shall provide to Changyou the use of advertising space in certain Specified Transactions as follows (it is the intent of the parties that such use will constitute a rental/licensing of the relevant advertising space from Sohu to Changyou):

(i) Sohu will provide Changyou with the exclusive use of specific space on the Sohu Websites for the display of banner ads, buttons, and other online advertising mediums as specified in Sohu's rate card concerning Changyou's MMORPGs (the "Banner Ads"). In order to do so, Sohu will also provide Changyou with physical storage space and create a "virtual server" on servers, for the Banner Ad files and give Changyou exclusive control and administration over such storage space via the use of separate login username and pass code, and other similar mechanisms. Such storage space shall be treated as leased to Changyou. In addition, the Banner Ads will be served through a separate domain name specific to Changyou. Changyou personnel will design these Banner Ads and have complete and exclusive control over their content and format, subject only to Sohu policies applicable to all advertisers.

(ii) Sohu will provide Changyou with the use of specific space on the Sohu Websites for the display of promotional articles concerning Changyou's MMORPGs (the "Soft Ads"). Changyou personnel will write these Soft Ads and have complete control over their content and format, subject only to Sohu policies applicable to all advertisers.

(B) Changyou will compensate Sohu separately for any incidental services that may be necessary in integrating the Banner Ads and Soft Ads into the Sohu Websites, as well as any other similar incidental services needed in connection with the delivery and dissemination of such Banner Ads and Soft Ads. The determination of such service charges will be separate from the determination of the payments for the use of advertising space for the Banner Ads and the Soft Ads.

(C) Changyou will compensate Sohu separately for the use of any other advertising space or incidental services related to advertising space not included within the Specified Transactions as described above.

(c) By no later than January 31 of each year, Sohu and Changyou will discuss and agree on the number of Changyou links to be posted, the position of each Changyou Link and the annual quota for Changyou online advertisements, including the Banner Ads and Soft Ads ("Online Advertisements"), on the Sohu Websites. The details of the Online Advertisements, such as the forms, position, period of display, and price, will be determined quarterly based on sales orders within the annual quota as agreed between Sohu and Changyou. If, due to operational requirements, Sohu determines in its reasonable and sole discretion that it needs to make changes to the home page, catalogue pages or channels on the Sohu Websites, and such changes will result in changes to the position and/or size of a Changyou Link and/or an Online Advertisement, then Sohu will notify Changyou in writing of its intended changes fifteen (15) days in advance of making such changes, specifying the revised position and size of the Changyou Link and/or the Online Advertisements. Changyou will, within ten (10) days of receiving the aforementioned notice, confirm its understanding of the same in writing to Sohu. Sohu will make reasonable efforts to accommodate any objections Changyou makes to such changes within such ten-day period, provided that Sohu will be under no obligation to make any such accommodation if Sohu determines, in its sole reasonable discretion, that such accommodation is not practicable. If Changyou fails to reply to Sohu's notice within the stipulated period, Changyou will be deemed to have accepted the changes.

2.2 <u>Compensation</u>.

(a) <u>Links</u>. In consideration of the rights granted to Changyou in this Section 2, Changyou will pay to Sohu, within 30 days after the end of each calendar quarter, a fee of RMB800,000 for each Changyou link placed on the Sohu.com homepage, subject to Sohu's providing to Changyou, by the end of each such quarter, an invoice and reasonably detailed documentation. The amount of such fee will be increased (or decreased, as the case may be) effective each January 1 and July 1 in accordance with then-prevailing rates charged in the Peoples' Republic of China for similar link services between unrelated third parties, as reasonably agreed to by Sohu and Changyou.

(b) Advertising. In consideration of the use of the advertising space on Sohu Websites and incidental services provided to Changyou under this Section 2, Changyou will pay Sohu three separate forms of compensation (together, the "Advertising Fee"):

(A) A fee for the use of advertising space in the Specified Transactions;

(B) A fee for any incidental services necessitated by the Specified Transactions; and

(C) A fee for any other Online Advertisements (exclusive of the Specified Transactions) and incidental services related to such Online Advertisements.

The Advertising Fee will be charged at a discount off the publicly listed rates for advertisements on Sohu Websites then in effect. The discount will be discussed and agreed to by the parties by January 31 of each year. The parties agree that the discount Sohu provides to Changyou will not be less favorable than any Sohu provides to any other third party under similar circumstances. The Advertising Fee will be paid to Sohu within 30 days after the end of each calendar quarter, subject to Sohu's providing to Changyou, by the end of each such quarter, an invoice and reasonably detailed documentation.

2.3 Sohu Rejections. Sohu reserves the right to reject any Changyou Link that is not reasonably consistent with Sohu's standards, provided that Sohu notifies Changyou of the reason for rejection and accepts such Changyou Link if the reason for rejection is cured.

ARTICLE III
PROMOTION AND TECHNICAL SERVICES

3.1 Identification as Part of Sohu Group and Use of Sohu Logo. Sohu grants to Changyou the non-exclusive right to use, during the term of this Agreement, the phrase "Changyou.com is a member of the Sohu Group," or a similar phrase approved by Sohu, and the Sohu logo, as the same may be in use by Sohu from time to time, in all Changyou Websites and in all advertising and promotional materials, including in any Changyou-sponsored advertising. Changyou will pay to Sohu, within 30 days after the end of each calendar quarter, a fee of RMB 6,000,000 for such use of the Sohu logo by Changyou during the quarter, subject to an invoice provided by Sohu.

3.2 Sohu Passport. Sohu will provide all technical services necessary to enable the Changyou Websites to be accessed through Sohu Passport. In consideration of Sohu's providing such services, Changyou will pay to Sohu, within 30 days after the end of each calendar quarter, a fee of RMB 12.5 for each new Changyou registered MMORPG user obtained through Passport accounts, subject to Sohu's providing to Changyou, by the end of each such quarter, an invoice and reasonably detailed documentation. The amount of such fee will be increased (or decreased, as the case may be) effective each January 1 and July 1 in accordance with then-prevailing rates charged in the Peoples' Republic of China for similar services between unrelated third parties, as reasonably agreed to by Sohu and Changyou.

3.3 Sohu PEAK System. Sohu will make available to Changyou Sohu's PEAK system online payment platform, to allow Changyou MMORPG players to connect from their accounts directly to their payment accounts, to make direct online purchases of virtual prepaid cards or game points for Changyou's MMORPGs. For such services, Sohu will charge Changyou such amount as does not exceed the then prevailing rates charged by third parties for similar services, the Parties acknowledging that the amount payable to Sohu by Changyou as of the date of this Agreement is 0.9% of the full face value (*i.e.*, not reduced by any discount offered by Changyou to its customers), of the virtual prepaid cards or the full face value of the game points purchased, as applicable. Amounts charged by Changyou to its customers will be collected by Sohu through its PEAK system and transferred to Changyou, less a 0.1% service charge, within 30 days after the end of each calendar quarter.

3.4 Bulletin Board System (BBS). Sohu will build and maintain a BBS for each Changyou MMORPG, and will provide "24/7" hosting and maintenance services for such BBS. In addition, Sohu will provide technical support to help Changyou to manage the BBS. In consideration of Sohu's providing such services, Changyou will pay to Sohu, within 30 days after the end of each calendar quarter, a fee of RMB100,000 for each BBS site used by Changyou. The parties acknowledge and agree that Sohu currently is operating three BBS sites for Changyou MMORPGs, as shown on Exhibit II to this Agreement. The amount of the fee payable by Changyou to Sohu for such BBS sites and services will be increased (or decreased, as the case may be) effective each January 1 and July 1 in accordance with then-prevailing rates charged in the Peoples' Republic of China for similar services between unrelated third parties, as reasonably agreed to by Sohu and Changyou.

ARTICLE IV
DOMAIN NAMES

4.1 License. While this Agreement is in effect, Sohu grants to Changyou a license to:

(a) any domain names that Sohu currently owns that at are used by Changyou in connection with Changyou MMORPGs or the Changyou Websites (other than domain names that it has transferred or is required to transfer to Changyou or its Affiliates pursuant to the Master Transaction Agreement or the agreements referenced therein) (Exhibit III is a list of domain names that Changyou is currently using), and

(b) the use of the word "sohu" in domain names that are currently owned or used by Changyou or that Changyou may wish to own in the future, in each case limited to use by Changyou in connection with the development, operation, or promotion of its MMORPG business.

4.2 For the use of such domain names, Changyou will pay to Sohu within 30 days after the end of each calendar quarter, a fee of RMB 300,000 for each of domain name but no more than RMB 1,200,000 in total for up to nine domain names. The amount of such fee will be increased (or decreased, as the case may be) effective each January 1 and July 1 in accordance with then-prevailing rates charged in the Peoples' Republic of China for similar licenses between unrelated third parties, as reasonably agreed to by Sohu and Changyou.

ARTICLE V
INTELLECTUAL PROPERTY

5.1 Trademark License. Changyou retains all right, title and interest in and to the Changyou Websites, and Changyou's trademarks, service marks, trade names and logos worldwide. Changyou grants Sohu a non-exclusive limited-use license to use Changyou's trademarks, service marks, trade names and logos only in connection with placing links to Changyou urls to be provided to Sohu by Changyou, for performing its other advertising and promotional obligations to Changyou as set forth in this Agreement, and for joint promotions of the Sohu and Changyou brands.

5.2 Ownership. Each Party owns and will retain all right, title and interest in its names, logos, trademarks and service marks, copyrights and proprietary technology, including without limitation, those names, logos, trademarks and service marks, copyrights and proprietary technology currently used or any which may be developed in the future. Neither Party will copy, distribute, reproduce or use the other Party's names, logos, trademarks and service marks, copyrights and proprietary technology except as expressly permitted under this Agreement.

ARTICLE VI
TERM

6.1 Termination. This Agreement may be terminated or amended by mutual written consent of the Parties. In addition, this Agreement will terminate upon the later of:

(c) the date that is three years after the first date upon which Sohu ceases to own in the aggregate at least ten percent (10%) of the voting power of the then outstanding securities of Changyou; and

(d) the fifth anniversary of the date of the Filing Date.

Unless otherwise agreed to by the Parties in writing, the provisions of Article 5 and Articles 7 through 9 will survive indefinitely after the termination of this Agreement.

ARTICLE VII
LIMITATION OF LIABILITY

7.1 No Warranty. Except as expressly stated in this Agreement, all materials, documents, advertising, and services delivered under this agreement ("Deliverables") are provided "as is." Except as expressly stated in this agreement, neither party makes any representations or warranties of any kind concerning the Deliverables, express or implied, including, without limitation, warranties of merchantability, fitness for a particular purpose, non-infringement, or the absence of latent or other defects, whether or not discoverable. Neither Party extends any warranties of any kind as to their content and/or websites being error free.

7.2 Limitation of Damages. In no event will either Party, or their directors, officers, agents, employees or affiliates, be liable for incidental, special or consequential damages of any kind, including economic damages or injury to property and lost profits, under any theory of law, regardless of whether such Party is advised, has other reason to know, or in fact does know of the possibility of the foregoing.

ARTICLE VIII
INDEMNITIES

8.1 Intellectual Property. Each Party ("Indemnifying Party") will indemnify, defend and hold harmless the other Party, and its subsidiaries and variable interest entities (except that, for purposed of this Article VIII, Sohu.com Inc. subsidiaries and variable interest entities will not include Changyou and its subsidiaries and variable interest entity), and their respective directors, officers, employees and agents ("Indemnitees"), against any and all claims, actions, liabilities, losses, and expenses (including reasonable attorneys' fees) brought by a third party relating to or arising out of any claim that any content provided by such Indemnifying Party and displayed on the Changyou Websites or the Sohu Websites constitutes a defamation or invasion of the right of privacy or publicity, or infringement of the copyright, trademark or other intellectual property right, of any third party. This indemnity will specifically not apply to content provided by visitors to the Changyou Websites or Sohu Websites, including, but not limited to, such visitors who use chat rooms, bulletin boards, or other forums that allow visitors to display material that is not within the control of the Indemnifying Party.

8.2 Procedure. The Indemnitee will promptly provide the Indemnifying Party with written notice of any claim which the Indemnitee believes falls within the scope of this Section 8; provided, however, that, except to the extent the Indemnifying Party is actually prejudiced by the Indemnitee's failure to provide such prompt notice, such failure to provide prompt notice hereunder will not limit the Indemnitee's rights under this Section 8. The Indemnitee may, at its own expense, assist in the defense of any such claim if it so chooses, provided that the Indemnifying Party will control such defense and all negotiations relative to the settlement of any such claim.

ARTICLE IX
MISCELLANEOUS

9.1 Consent. No consent or approval of either Party pursuant to this Agreement will be effective unless it is in writing and evidenced by the signature of the Chief Executive Officer or Chief Financial Officer of the consenting or approving Party (or such other person that the Chief Executive Officer or Chief Financial Officer has specifically authorized in writing to give such consent or approval).

9.2 Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof and will supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

9.3 Governing Law and Jurisdiction. This Agreement, including the validity hereof and the rights and obligations of the Parties hereunder, will be construed in accordance with and all disputes hereunder will be governed by the laws of the State of New York, U.S.A., applicable to contracts made and to be performed entirely in such state (without giving effect to the conflicts of laws provisions thereof). Each of the Parties hereby submits unconditionally to jurisdiction of, and agrees that venue will lie exclusively in, the federal and state courts located in the City of New York for purposes of the resolution of any disputes arising under this Agreement.

9.4 Amendment. This Agreement may be amended only by mutual written consent of the Parties.

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

if to Sohu:

Level 12, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084
People's Republic of China
Attention: Chief Financial Officer

Email: carol@sohu-inc.com

if to Changyou:

East Tower, JinYan Hotel
No. 29 Shijingshan road, Shijingshan
Beijing 100043
People's Republic of China
Attention: Chief Financial Officer

Email: alex@sohu-inc.com

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

9.6 Counterparts. This Agreement may be executed in counterparts, each of which will be deemed to be an original but all of which will constitute one and the same agreement.

9.7 Binding Effect; Assignment. This Agreement will inure to the benefit of and be binding upon the Parties hereto and their respective legal representatives and successors, and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement. No Party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other Party, and any such assignment without such consent will be void; provided, however, each Party may assign this Agreement to a successor entity in conjunction with the transfer of substantially all of the Party's business, whether by sale of substantially all assets, merger, consolidation or otherwise.

9.8 Severability. If any term or other provision of this Agreement is determined by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement will nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto will negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

9.9 Failure or Indulgence not Waiver; Remedies Cumulative. No failure or delay on the part of any Party in the exercise of any right hereunder will impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor will any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

9.10 Interpretation. The headings contained in this Agreement are for reference purposes only and will not affect in any way the meaning or interpretation of this Agreement. None of the provisions of this Agreement are intended to supersede any provision in any other Inter-Company Agreement or any other agreement with respect to the respective subject matters thereof.

[Signatures on Next Page**]**

WHEREFORE, the Parties have signed this Marketing Services Agreement effective as of the date first set forth above.

SOHU.COM INC.

By: ______________________________

Name

Title:

CHANGYOU.COM LIMITED

By: ______________________________

Name

Title:

Exhibit I:

Links Currently Used by Changyou

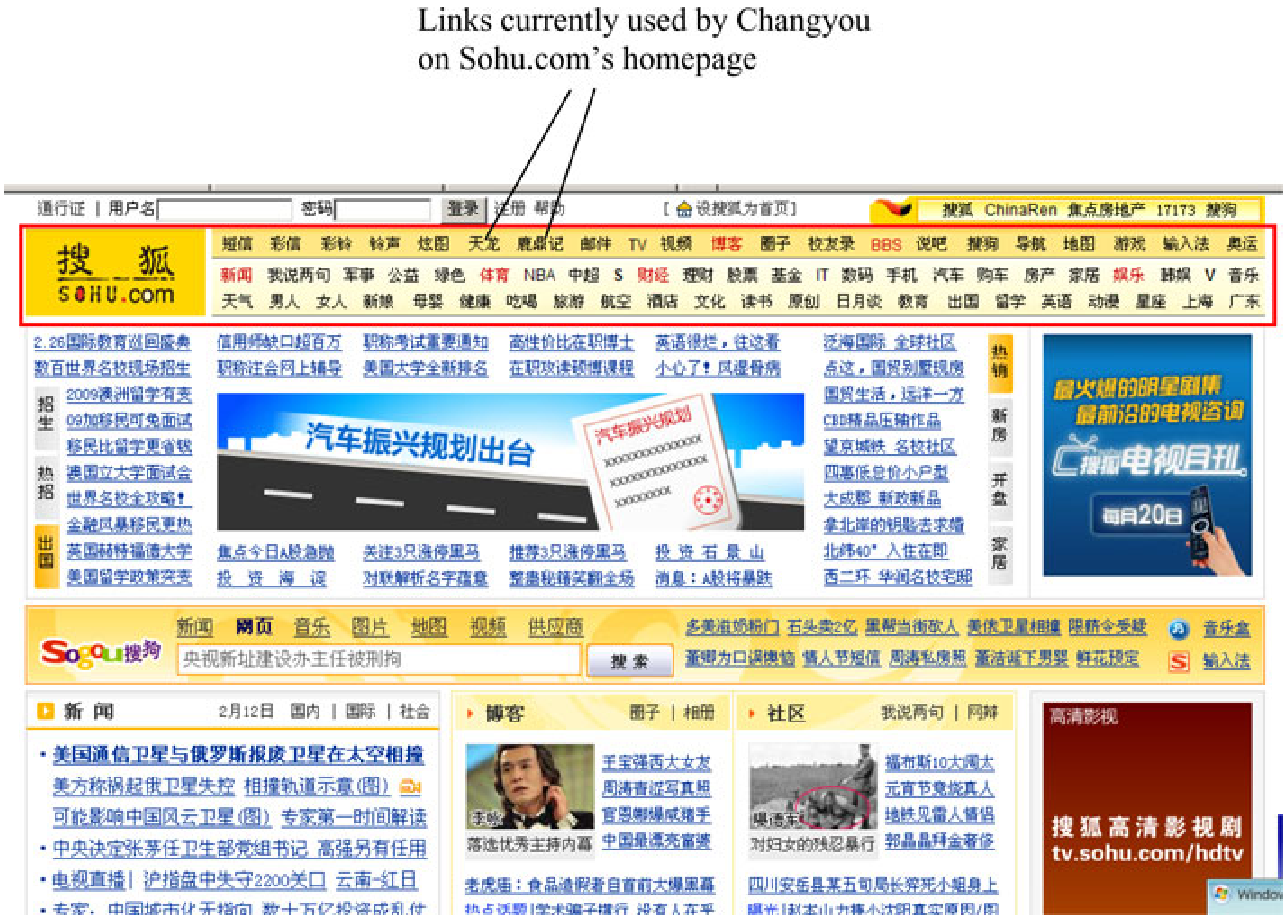
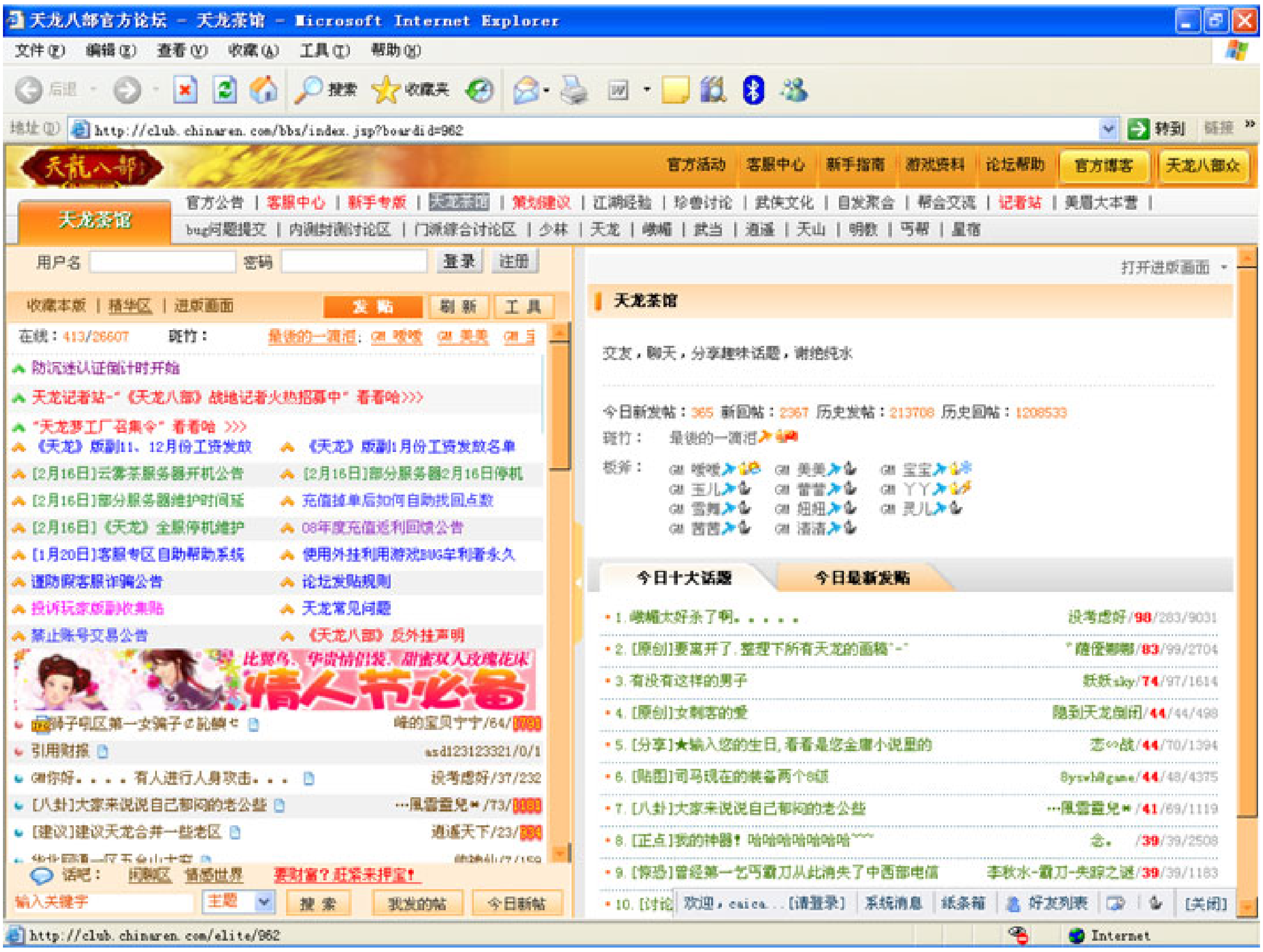
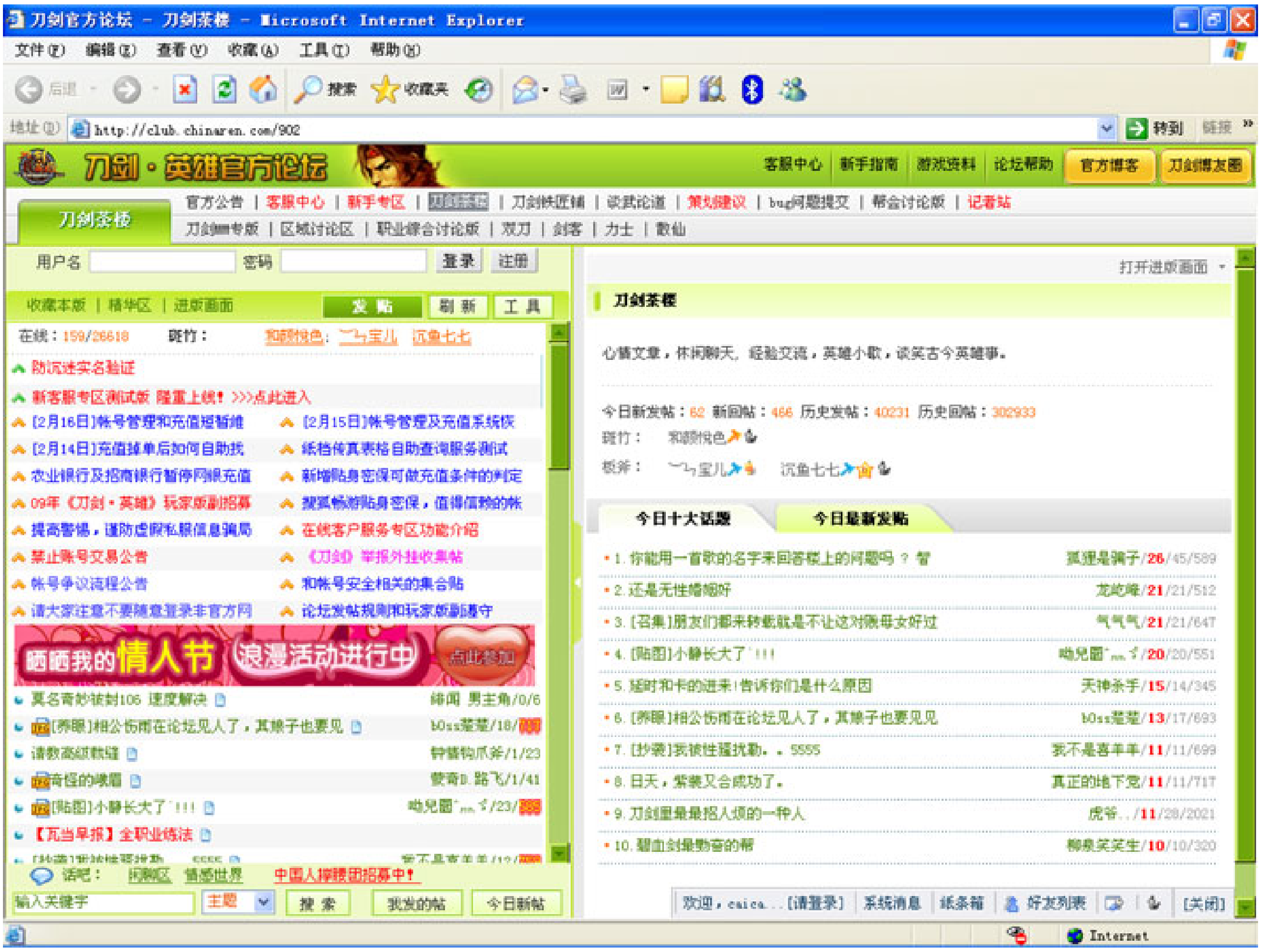


Exhibit II:

BBS Sites Used by Changyou as of the Date of Agreement





刀剑官方论坛 - 刀剑茶楼 - Microsoft Internet Explorer
http://club.chinaren.com/902
刀剑·英雄官方论坛
客服中心
新手指南
游戏资料
论坛帮助
官方博客
刀剑博友圈
刀剑茶楼
官方公告 | 客服中心 | 新手专区 | 刀剑茶楼 | 刀剑铁匠铺 | 谈武论道 | 策划建议 | bug问题提交 | 帮会讨论版 | 记者站
用户名
密码
登录
注册
发 贴
刷 新
工 具
防沉迷实名验证
新客服专区测试版 隆重上线！ >>>点此进入
晒晒我的情人节 浪漫活动进行中
点此参加
打开进版画面
刀剑茶楼
心情文章，休闲聊天，经验交流，英雄小歌，谈笑古今英雄事。
今日十大话题
今日最新发帖
Internet

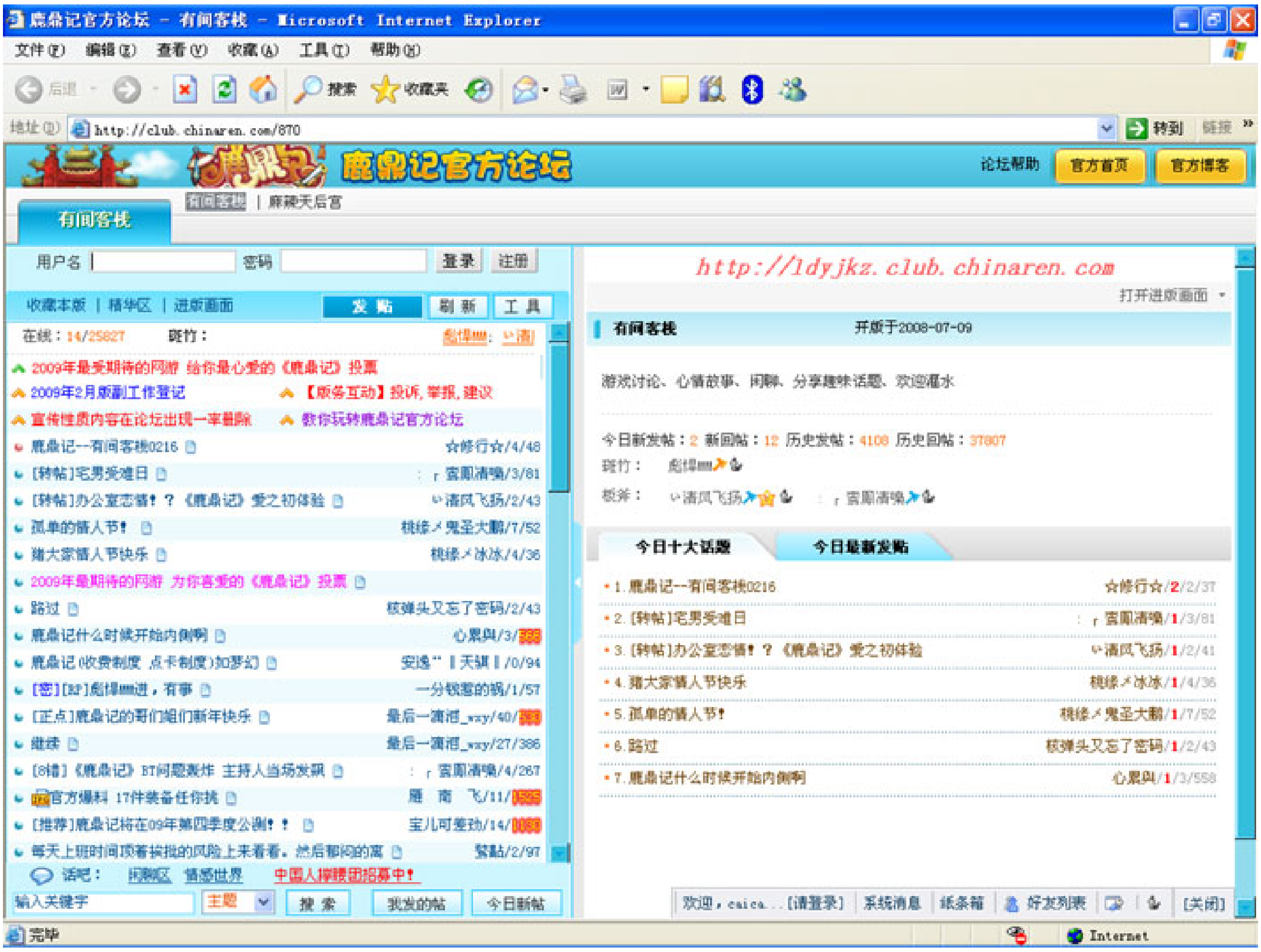

鹿鼎记官方论坛 - 有间客栈 - Microsoft Internet Explorer
http://club.chinaren.com/870
鹿鼎记官方论坛
论坛帮助
官方首页
官方博客
有间客栈
http://ldyjkz.club.chinaren.com
有间客栈
开版于2008-07-09
游戏讨论、心情故事、闲聊、分享趣味话题、欢迎灌水
今日十大话题
今日最新发贴
1.鹿鼎记--有间客栈0216
2.[转帖]宅男受难日
3.[转帖]办公室恋情！？《鹿鼎记》爱之初体验
4.猪大家情人节快乐
5.孤单的情人节！
6.路过
7.鹿鼎记什么时候开始内侧啊
2009年最受期待的网游 给你最心爱的《鹿鼎记》投票
2009年2月版副工作登记
【版务互动】投诉，举报，建议
宣传性质内容在论坛出现一率删除
教你玩转鹿鼎记官方论坛

Exhibit III

Domain Names Used by Changyou as of The Date of The Agreement

- tl.sohu.com
- ldj.sohu.com
- bo.sohu.com
- blade.sohu.com

Exhibit 31.1

I, Charles Zhang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sohu.com Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2010

/s/ Charles Zhang

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

Exhibit 31.2

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: May 7, 2010

/s/ Carol Yu

Carol Yu
Co-President and Chief Financial Officer

Exhibit 32.1

SOHU.COM INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sohu.com Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of March 31, 2010 and results of operations of the Company for the three months ended March 31, 2010.

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and
Chairman of the Board of Directors
May 7, 2010

Exhibit 32.2

SOHU.COM INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sohu.com Inc. (the "Company") on Form 10-Q for the period ended March 31, 2010 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 March 31, 2010 and results of operations of the Company for the three months ended March 31, 2010.

/s/ Carol Yu

Carol Yu, Co-President and Chief Financial Officer
May 7, 2010