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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

OR

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

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 0-30961

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 18, SOHU.com Media Plaza
Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190
People's Republic of China
(011) 8610-6272-6666
(Address, including zip code, of registrant's principal executive offices

and registrant's telephone number, including area code)

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

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

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

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

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

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

Class	Outstanding at June 30, 2014
Common stock, $.001 par value	**38,476,961**

SOHU.COM INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	As of	
	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$1,050,362	$1,287,288
Restricted time deposits	372,058	393,087
Short-term investments	0	2,827
Investments in debt securities	0	82,009
Accounts receivable, net	164,906	154,342
Prepaid and other current assets	139,978	132,002
Total current assets	1,727,304	2,051,555
Fixed assets, net	549,233	564,442
Goodwill	207,541	208,795
Intangible assets, net	99,926	107,108
Restricted time deposits	9,305	40,961
Prepaid non-current assets	8,704	9,527
Other assets	32,143	16,327
Total assets	$2,634,156	$2,998,715
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (“VIEs”) without recourse to the Company of $4,762 and $16,167, respectively, as of June 30, 2014 and December 31, 2013)	$ 126,059	$ 125,896
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of $75,749 and $79,041, respectively, as of June 30, 2014 and December 31, 2013)	201,984	227,018
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of $43,050 and $60,140, respectively, as of June 30, 2014 and December 31, 2013)	102,104	113,328
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of $3,265 and $3,241, respectively, as of June 30, 2014 and December 31, 2013)	113,504	90,901
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of $6,567 and $7,616, respectively, as of June 30, 2014 and December 31, 2013)	38,850	48,324
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of $3,as of both June 30, 2014 and December 31, 2013)	20,601	18,813
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both June 30, 2014 and December 31, 2013)	257,000	410,331

Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of $18,620 and $253,933, respectively, as of June 30, 2014 and December 31, 2013)	66,366	79,798
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of $2,867 and nil, respectively, as of June 30, 2014 and December 31, 2013)	2,867	0
Total current liabilities	929,335	1,114,409
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of $1,554 and $1,621, respectively, as of June 30, 2014 and December 31, 2013)	5,331	6,252
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of nil as of both June 30, 2014 and December 31, 2013)	24,820	24,835
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs without recourse to the Company of $3,106 and $3,777, respectively, as of June 30, 2014 and December 31, 2013)	11,180	12,337
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of $1,498 and $4,162, respectively, as of June 30, 2014 and December 31, 2013)	1,498	4,162
Total long-term liabilities	42,829	47,586
Total liabilities	972,164	1,161,995
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Sohu.com Inc. shareholders' equity:		
Common stock: $0.001 par value per share (75,400 shares authorized; 38,477 shares and 38,326 shares, respectively, issued and outstanding as of June 30, 2014 and December 31, 2013)	44	44
Additional paid-in capital	652,185	601,633
Treasury stock (5,889 shares as of both June 30, 2014 and December 31, 2013)	(143,858)	(143,858)
Accumulated other comprehensive income	106,958	116,304
Retained earnings	632,638	752,582
Total Sohu.com Inc. shareholders' equity	1,247,967	1,326,705
Noncontrolling interest	414,025	510,015
Total shareholders' equity	1,661,992	1,836,720
Total liabilities and shareholders' equity	$2,634,156	$2,998,715

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Online advertising:				
Brand advertising	$133,408	$100,191	$ 244,511	$180,428
Search and others	85,064	46,171	149,373	82,223
Subtotal of online advertising revenues	218,472	146,362	393,884	262,651
Online games	153,877	168,295	317,265	335,716
Others	27,802	24,247	54,317	48,133
Total revenues	400,151	338,904	765,466	646,500
Cost of revenues:				
Online advertising:				
Brand advertising	82,898	51,556	147,038	96,434
Search and others	40,420	24,498	72,157	45,290
Subtotal of cost of online advertising revenues	123,318	76,054	219,195	141,724
Online games	30,263	22,981	56,849	45,630
Others	16,305	14,610	32,340	29,820
Total cost of revenues	169,886	113,645	308,384	217,174
Gross profit	230,265	225,259	457,082	429,326
Operating expenses:				
Product development	102,218	63,361	219,940	115,180
Sales and marketing	136,606	71,678	278,960	130,401
General and administrative	53,246	25,772	88,600	48,361
Total operating expenses	292,070	160,811	587,500	293,942
Operating profit /(loss)	(61,805)	64,448	(130,418)	135,384
Other income	694	1,532	4,444	4,063
Net interest income	8,779	5,498	17,236	12,199
Exchange difference	59	(1,984)	637	(3,969)
Income /(loss) before income tax expense	(52,273)	69,494	(108,101)	147,677
Income tax benefit /(expense)	1,740	(16,251)	1,526	(36,269)
Net income /(loss)	(50,533)	53,243	(106,575)	111,408
Less: Net income /(loss) attributable to the mezzanine-classified noncontrolling interest shareholders	0	7,112	0	17,780
Net income /(loss) attributable to the noncontrolling interest shareholders	(9,443)	24,505	(14,378)	47,571
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	0	27,747	0
Net income /(loss) attributable to Sohu.com Inc.	$ (41,090)	$ 21,626	$(119,944)	$ 46,057

Net income /(loss)	(50,533)	53,243	(106,575)	111,408
Other comprehensive income /(loss): Foreign currency translation adjustment, net of tax	(255)	20,429	(13,079)	25,232
Comprehensive income /(loss)	(50,788)	73,672	(119,654)	136,640
Less: Comprehensive income /(loss) attributable to the mezzanine-classified noncontrolling interest shareholders	0	7,112	0	17,780
Comprehensive income /(loss) attributable to noncontrolling interest shareholders	(9,485)	28,800	(18,111)	52,932
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	0	27,747	0
Comprehensive income /(loss) attributable to Sohu.com Inc.	(41,303)	37,760	(129,290)	65,928
Basic net income /(loss) per share attributable to Sohu.com Inc.	$ (1.07)	$ 0.57	$ (3.12)	$ 1.21
Shares used in computing basic net income /(loss) per share attributable to Sohu.com Inc.	38,475	38,259	38,443	38,214
Diluted net income /(loss) per share attributable to Sohu.com Inc.	$ (1.16)	$ 0.56	$ (3.18)	$ 1.16
Shares used in computing diluted net income /(loss) per share attributable to Sohu.com Inc.	38,475	38,492	38,443	38,461

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)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cash flows from operating activities:		
Net income /(loss)	$(106,575)	$ 111,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,751	23,833
Share-based compensation expense	14,771	2,325
Amortization of intangible assets and purchased video content in prepaid expense	64,562	32,309
Impairment of intangible assets	412	1,444
Provision for allowance for doubtful accounts	471	(386)
Investment income from investments in debt securities	(1,370)	(2,748)
Change in fair value of put option	(2,304)	0
Others	1,299	(1,507)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(12,082)	(38,516)
Prepaid and other assets	(2,978)	(24,002)
Accounts payable	(9,168)	5,534
Receipts in advance and deferred revenue	(10,582)	1,141
Taxes payable	(9,337)	1,744
Deferred tax	(17,058)	6,133
Accrued and other short-term liabilities	20,847	33,014
Net cash provided by /(used in) operating activities	(30,341)	151,726
Cash flows from investing activities:		
Purchase of noncontrolling interest in 7Road	0	(76,010)
Purchase of fixed assets	(56,070)	(48,655)
Purchase of intangible and other assets	(54,363)	(38,942)
Proceeds received from maturity of debt securities	82,009	0
Cash received /(paid) related to restricted time deposits	48,764	(90,963)
Proceeds from /(purchase of) short-term investments, net	2,827	(40,682)
Other cash proceeds related to investing activities	1,687	93
Net cash provided by /(used in) investing activities	24,854	(295,159)
Cash flows from financing activities:		
Issuance of common stock	425	784
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(47,285)	0
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(24,532)	0
Proceeds /(repayments) of loans from offshore banks	(153,193)	81,000
Payment of contingent consideration	(2,813)	(19,736)
Exercise of share-based awards in subsidiary	404	1,324
Proceeds received from early exercise of share-based awards in subsidiary	0	5,278
Net cash provided by /(used in) financing activities	(226,994)	68,650
Effect of exchange rate changes on cash and cash equivalents	(4,445)	11,790
Net decrease in cash and cash equivalents	(236,926)	(62,993)

Cash and cash equivalents at beginning of period	1,287,288	833,535
Cash and cash equivalents at end of period	$1,050,362	$770,542
Supplemental cash flow disclosures:		
Barter transactions	721	374
Supplemental schedule of non-cash investing activity:		
Consideration payable for purchase of noncontrolling interest in 7Road	0	2,000
Changes in government grant in prepaid and other current assets	0	1,066

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

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

Six Months Ended June 30, 2014
(In thousands)

		Sohu.com Inc. Shareholders' Equity					
	Total	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest
Beginning balance	$1,836,720	$ 44	$601,633	$(143,858)	$ 116,304	$752,582	$ 510,015
Issuance of common stock	425	0	425	0	0	0	0
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(47,285)	0	26,276	0	0	(27,747)	(45,814)
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(24,532)	0	0	0	0	0	(24,532)
Exercise of right to repurchase from China Web	1,584	0	1,584	0	0	0	0
Purchase of equity interests of a VIE from a third party shareholder	(809)	0	11	0	0	0	(820)
Share-based compensation expense	14,753	0	11,029	0	0	0	3,724
Settlement of share-based awards in subsidiary	790	0	11,227	0	0	0	(10,437)
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	(106,575)	0	0	0	0	(92,197)	(14,378)
Foreign currency translation adjustment, net of tax	(13,079)	0	0	0	(9,346)	0	(3,733)
Ending balance	$1,661,992	$ 44	$652,185	$(143,858)	$ 106,958	$632,638	$ 414,025

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)

Six Months Ended June 30, 2013
(In thousands)

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

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

SOHU.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company and Basis of Presentation

Nature of Operations

Sohu.com Inc. ("Sohu" or the "Company"), a Delaware corporation organized in 1996, is a leading Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices in the People's Republic of China (the "PRC" or "China"). The Company, together with its wholly-owned and majority-owned subsidiaries and variable interest entities (collectively the "Sohu Group" or the "Group"), mainly offers online advertising services and online game services.

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

Online Advertising

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

Brand Advertising Business

The Sohu Group's brand advertising business offers to its users, over its matrices of Chinese language online media content and services, various products and services (such as free of charge content, including news, video, interactive community and other competitive Internet services and membership services) across multiple Internet-enabled devices, such as PCs, mobile phones and tablets. It also offers advertisements on Sohu Group Web properties to companies seeking to increase their brand awareness online.

Search and Others Business

The search and others business, provided by Sohu's search subsidiary Sogou Inc. ("Sogou"), primarily offers customers pay-for-click services, as well as online marketing services on the Sogou Web Directory.

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

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

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

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

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

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

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

Pursuant to the Shareholders Agreement, Sohu will hold approximately 53% of the total voting power for the election of the Board of Directors of Sogou, assuming that the remaining repurchase options are exercised, Tencent's non-voting Class B Ordinary Shares are converted to voting shares, and all share options under the Sogou 2010 Share Incentive Plan and all share options under an arrangement providing for Sogou share-based awards to be available for grants to Sohu management and key employees (the "Sohu Management Sogou Share Option Arrangement") are granted and exercised. As Sohu is the controlling shareholder of Sogou, Sohu consolidates Sogou in the Sohu Group's consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

Online Games

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

Basis of Consolidation and Recognition of Noncontrolling Interest

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

VIE Consolidation

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

Noncontrolling Interest Recognition

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

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the six months ended June 30, 2014 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

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Reclassification of Mobile Business to Others Business

Commencing in the first quarter of 2014, the Group reclassified the mobile business to the others business, because the Group did not consider the mobile business to be significant enough to constitute a separately-disclosed revenue stream. The mobile business offers mobile related services through mobile products to mobile phone users through cooperation with China mobile network operators. The mobile products consist primarily of short messaging services ("SMS"), mobile video, ring-back tones ("RBT"), and interactive voice response ("IVR"). A majority of the content is purchased from third-party content providers. To conform to current period presentations, certain comparative figures for prior periods have been reclassified accordingly. Such reclassifications amounted to $15.3 million and $29.1 million, respectively, for revenues and $9.0 million and $18.2 million, respectively, for costs for the three months and six months ended June 30, 2013.

2. Segment Information

The Sohu Group's segments are business units that offer different services and are reviewed separately by the chief operating decision maker (the "CODM"), or the decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is Sohu.com Inc.'s Chief Executive Officer. Some items, such as share-based compensation expense, operating expenses, other income and expense, and income tax expense, are not reviewed by the CODM. These items are disclosed in the segment information for reconciliation purposes only.

In connection with the reclassification of the mobile business to the others business, as the CODM no longer reviewed the mobile business as a separate segment, the Group reclassified the mobile segment to the others segment from the first quarter of 2014. There are four reportable segments in the Group, consisting of brand advertising, Sogou (which mainly consists of search and others business), Changyou (which mainly consists of the online game business) and others business. The Group has restated the presentation of its reportable segments for prior periods to conform to the current presentation.

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

	Three Months Ended June 30, 2014						
	Brand Advertising and Others						
	Brand Advertising	Others	Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 121,685	$13,400	$ 135,085	$ 90,951	$ 177,781	$ (3,666)	$ 400,151
Segment cost of revenues	(78,582)	(6,815)	(85,397)	(39,988)	(43,519)	217	(168,687)
Segment gross profit /(loss)	$ 43,103	$ 6,585	49,688	50,963	134,262	(3,449)	231,464
SBC (2) in cost of revenues			(700)	(482)	(17)	0	(1,199)
Gross profit			48,988	50,481	134,245	(3,449)	230,265
Operating expenses:							
Product development			(21,825)	(25,286)	(48,977)	1,164	(94,924)
Sales and marketing			(54,494)	(14,309)	(69,387)	3,695	(134,495)
General and administrative			(12,075)	(2,590)	(22,452)	(168)	(37,285)
SBC (2) in operating expenses			(4,770)	(20,603)	(441)	448	(25,366)
Total operating expenses			(93,164)	(62,788)	(141,257)	5,139	(292,070)
Operating profit /(loss)			(44,176)	(12,307)	(7,012)	1,690	(61,805)
Other income /(expense)			1,399	103	434	(1,242)	694
Net interest income			2,635	402	5,742	0	8,779
Exchange difference			(14)	(78)	151	0	59
Income /(loss) before income tax expense			(40,156)	(11,880)	(685)	448	(52,273)
Income tax (expense) /benefit			(452)	0	2,192	0	1,740
Net income /(loss)			$ (40,608)	$(11,880)	$ 1,507	$ 448	$ (50,533)

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

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

	Three Months Ended June 30, 2013						
	Brand Advertising and Others						
	Brand Advertising	Others	Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 92,298	$17,837	$ 110,135	$ 49,874	$182,371	$ (3,476)	$ 338,904
Segment cost of revenues	(48,372)	(9,800)	(58,172)	(24,495)	(30,976)	96	(113,547)
Segment gross profit /(loss)	$ 43,926	$ 8,037	51,963	25,379	151,395	(3,380)	225,357
SBC (2) in cost of revenues			(60)	(3)	(35)	0	(98)
Gross profit			51,903	25,376	151,360	(3,380)	225,259
Operating expenses:							
Product development			(22,115)	(14,650)	(26,188)	0	(62,953)
Sales and marketing			(46,960)	(9,447)	(18,450)	3,380	(71,477)
General and administrative			(9,699)	(2,428)	(13,113)	0	(25,240)
SBC (2) in operating expenses			(535)	(261)	(347)	2	(1,141)
Total operating expenses			(79,309)	(26,786)	(58,098)	3,382	(160,811)
Operating profit /(loss)			(27,406)	(1,410)	93,262	2	64,448
Other income /(expense)			937	82	513	0	1,532
Net interest income			1,171	272	4,055	0	5,498
Exchange difference			(458)	143	(1,669)	0	(1,984)
Income /(loss) before income tax expense			(25,756)	(913)	96,161	2	69,494
Income tax (expense) /benefit			(2,366)	(6)	(13,879)	0	(16,251)
Net income /(loss)			$ (28,122)	$ (919)	$ 82,282	$ 2	$ 53,243

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

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

	Six Months Ended June 30, 2014						
	Brand Advertising and Others						
	Brand Advertising	Others	Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 226,255	$ 26,814	$ 253,069	$ 160,923	$ 358,534	$ (7,060)	$ 765,466
Segment cost of revenues	(139,451)	(14,049)	(153,500)	(71,689)	(82,663)	453	(307,399)
Segment gross profit /(loss)	$ 86,804	$ 12,765	99,569	89,234	275,871	(6,607)	458,067
SBC (2) in cost of revenues			(344)	(513)	(128)	0	(985)
Gross profit			99,225	88,721	275,743	(6,607)	457,082
Operating expenses:							
Product development			(44,332)	(49,469)	(118,535)	2,343	(209,993)
Sales and marketing			(107,938)	(25,349)	(149,960)	7,101	(276,146)
General and administrative			(21,390)	(5,187)	(43,620)	(344)	(70,541)
SBC (2) in operating expenses			(7,515)	(23,429)	(637)	761	(30,820)
Total operating expenses			(181,175)	(103,434)	(312,752)	9,861	(587,500)
Operating profit /(loss)			(81,950)	(14,713)	(37,009)	3,254	(130,418)
Other income /(expense)			3,427	2,459	1,051	(2,493)	4,444
Net interest income			4,549	854	11,833	0	17,236
Exchange difference			(88)	(163)	888	0	637
Income /(loss) before income tax expense			(74,062)	(11,563)	(23,237)	761	(108,101)
Income tax (expense) /benefit			(3,349)	0	4,875	0	1,526
Net income /(loss)			$ (77,411)	$ (11,563)	$ (18,362)	$ 761	$ (106,575)

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

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

	Six Months Ended June 30, 2013						
	Brand Advertising and Others						
	Brand Advertising	Others	Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 167,966	$ 36,240	$ 204,206	$ 89,204	$ 359,956	$ (6,866)	$ 646,500
Segment cost of revenues	(90,593)	(20,343)	(110,936)	(45,285)	(61,005)	220	(217,006)
Segment gross profit /(loss)	$ 77,373	$ 15,897	93,270	43,919	298,951	(6,646)	429,494
SBC (2) in cost of revenues			(138)	(5)	(25)	0	(168)
Gross profit			93,132	43,914	298,926	(6,646)	429,326
Operating expenses:							
Product development			(40,808)	(27,431)	(46,183)	0	(114,422)
Sales and marketing			(87,833)	(17,374)	(31,467)	6,646	(130,028)
General and administrative			(17,450)	(4,068)	(25,817)	0	(47,335)
SBC (2) in operating expenses			(1,159)	(411)	(589)	2	(2,157)
Total operating expenses			(147,250)	(49,284)	(104,056)	6,648	(293,942)
Operating profit /(loss)			(54,118)	(5,370)	194,870	2	135,384
Other income /(expense)			2,161	86	1,816	0	4,063
Net interest income			3,638	606	7,955	0	12,199
Exchange difference			(582)	147	(3,534)	0	(3,969)
Income /(loss) before income tax expense			(48,901)	(4,531)	201,107	2	147,677
Income tax (expense) /benefit			(5,751)	(6)	(30,512)	0	(36,269)
Net income /(loss)			$ (54,652)	$ (4,537)	$ 170,595	$ 2	$ 111,408

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

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

	As of June 30, 2014				
	Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	$ 494,051	$163,090	$ 393,221	$ 0	$1,050,362
Accounts receivable, net	107,497	19,902	37,599	(92)	164,906
Fixed assets, net	254,225	47,347	247,661	0	549,233
Total assets (1)	$1,138,858	$252,290	$1,397,671	$ (154,663)	$2,634,156

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

	As of December 31, 2013				
	Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	$ 498,058	$240,746	$ 548,484	$ 0	$1,287,288
Accounts receivable, net	102,823	15,705	35,996	(182)	154,342
Fixed assets, net	257,307	60,461	246,674	0	564,442
Total assets (1)	$1,221,003	$350,256	$1,585,212	$ (157,756)	$2,998,715

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

3. Share-Based Compensation Expense

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

Sohu, Changyou, and Sogou Share-based Awards

For Sohu, Changyou and Sogou, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, share-based compensation expense is recognized by Sogou in the consolidated statements of comprehensive income based on the then-current fair value at each reporting date. For Sogou Class A Ordinary Shares repurchased from employees of the Group in the second quarter of 2014, share-based compensation expense is recognized by the Sohu Group in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value at the repurchase date of the Sogou Class A Ordinary Shares that the Group repurchased. See Note 11—Sohu.com Inc. Shareholders' Equity.

Share-based compensation expense is charged to the shareholders' equity or noncontrolling interest section in the consolidated balance sheets.

Sohu Video Share-based Awards

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

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

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

As of June 30, 2014, $4.2 million in cumulative share-based compensation expense was recognized as costs and expenses for these vested awards in the consolidated statements of comprehensive income based on the fair value of the awards on June 30, 2014.

7Road Share-based Awards

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

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

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

In the third quarter of 2013, 7Road granted to an additional 48 7Road employees the right to receive an annual cash bonus under Scheme II with the same terms as described above.

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

For Scheme I, incremental compensation expense in the total amount of $5.3 million resulting from the modification will be recognized in the consolidated statements of comprehensive income ratably over the remaining vesting period of the awards for each tranche. For Scheme II, the incremental compensation expense varies depending on 7Road's financial performance.

Share-based Compensation Expense Recognition

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

Share-based compensation expense	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cost of revenues	$ 1,199	$ 98	$ 985	$ 168
Product development expenses	7,294	408	9,947	758
Sales and marketing expenses	2,111	201	2,814	373
General and administrative expenses	15,962	532	18,060	1,026
	$ 26,566	$ 1,239	$ 31,806	$ 2,325

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

Share-based compensation expense	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
For Sohu share-based awards	$ 1,277	$ 722	$ 3,905	$ 1,583
For Changyou share-based awards	459	363	739	572
For Sogou share-based awards (1)	20,603	154	22,935	170
For Sohu Video share-based awards	4,227	0	4,227	0
	$ 26,566	$ 1,239	$ 31,806	$ 2,325

Note (1): Includes compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, and compensation expense equal to the excess of the repurchase price paid to employees over the fair value at the repurchase date of the Sogou Class A Ordinary Shares that the Group repurchased. See Note 11—Sohu.com Inc. Shareholders' Equity.

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

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

4. Changyou Employee Incentive Plans

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

Under two of these three plans, Changyou may pay compensation to employees based on Changyou's profits. Changyou will distribute to eligible employees who participate in the plans up to 5% of Changyou's annual adjusted net profits. Combined, these two plans will distribute up to 10% of Changyou's annual adjusted net profits. Eligible employees will participate in these plans by paying an amount to purchase instruments that will entitle them, while they are employed by Changyou, to receive annual compensation under the plans. After four years of service to Changyou, employees who participate in either of these two plans will be entitled to sell their instruments to other employees at any time during their employment with Changyou at a price negotiated between the two employees, and by doing so would be compensated with the present value of their expected future cash bonuses for the remaining period of the incentive plans. Management concluded that compensation expense associated with these two plans should be accounted for by analogy to deferred compensation arrangements, and that the present value of the amounts forecasted to be distributed under the plans should be amortized over the first four years after the effective date of the plans, before the instruments are first allowed to be transferred to other employees; that the present value of future cash bonuses in the remaining period should be re-measured at each reporting date; that the gain or loss resulting from the re-measurement in the first four years should be amortized over the remaining portion of the four-year period; and that the gain or loss after the four-year period should be booked immediately upon re-measurement at each reporting date after the four-year period. For the three and six months ended June 30, 2014, compensation expense recognized for these two plans was $1.5 million and $2.8 million, respectively.

The third employee incentive plan is structured to allow eligible employees to receive up to 20% of the annual adjusted net profits of projects that they work on. Unlike under the first two plans, certain of the incentive instruments to be issued under this plan will permit participating employees to sell the instruments to other employees at any time during their employment, and certain of the incentive instruments will not permit participating employees to sell their instruments to other employees. Management concluded that compensation expense in the former case should be accounted for by analogy to deferred compensation arrangements, and accordingly should be accrued as of the effective date of the plan at the then present value of the amounts forecasted to be distributed under the plan; that the gain or loss resulting from the re-measurement of the cash bonus in the remaining period of the plan should be booked immediately upon re-measurement; and that compensation expense in the latter case should be recognized when the amount of relevant distributions under these plans is determined and Changyou's obligations are established each year. For the three and six months ended June 30, 2014, compensation expense recognized for this plan was $1.5 million and $26.7 million, respectively.

5. Fair Value Measurements

Fair Value of Financial Instruments

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

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

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

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

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

		Fair value measurements at reporting date using		
Items	**As of June 30, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 411,671	$ 0	$ 411,671	$ 0
Restricted time deposits	381,363	0	381,363	0
Total Assets	$ 793,034	$ 0	$ 793,034	$ 0

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

		Fair value measurements at reporting date using		
Items	**As of December 31, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents	$ 359,289	$ 0	$ 359,289	$ 0
Restricted time deposits	434,048	0	434,048	0
Short-term investments	2,827	0	2,827	0
Investments in debt securities	82,009	0	0	82,009
Total Assets	$ 878,173	$ 0	$ 796,164	$ 82,009
Put option recognized as other short-term liability	$ 3,888	$ 0	$ 0	$ 3,888

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

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

Cash Equivalents

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

Restricted Time Deposits

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

Changyou Loans from Offshore Banks, Secured by Time Deposits

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

As of June 30, 2014, the total amount of the bank loans was $257 million, all of which carried a floating rate of interest based on the London Inter-Bank Offered Rate ("LIBOR"). For the three and six months ended June 30, 2014, interest income from the restricted time deposits securing the loans was $3.7 million and $7.9 million, respectively, and interest expense on the bank loans was $1.2 million and $2.9 million, respectively. For the three and six months ended June 30, 2013, interest income from the restricted time deposits securing the loans was $3.1 million and $5.9 million, respectively, and interest expense on the bank loans was $2.2 million and $4.1 million, respectively.

Collateral related to Sogou Incentive Shares Trust Arrangements

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

Short-term Investments

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

As of June 30, 2014, the Sohu Group's investment in financial instruments was nil. For the three and six months ended June 30, 2014, the Sohu Group recorded in the consolidated statements of comprehensive income change in the fair value of short-term investments in the amount of nil and $16,000, respectively. For the three and six months ended June 30, 2013, the Group recorded in the consolidated statements of comprehensive income change in the fair value of short-term investments in the amount of $0.8 million and $1.5 million, respectively.

Investments in Debt Securities

In September 2010, Sohu purchased from a PRC-based company (the "Debtor") a convertible debt security in the principal amount of $74.6 million (or RMB0.5 billion) with interest, payable quarterly in cash, of 3.8% per annum and an initial maturity of twelve months, subject to extension in Sohu's sole discretion for additional six-month periods. The Debtor's obligations on the debt were secured by a pledge from the Debtor's parent company of its entire equity interest in the Debtor. The Company extended the maturity of the security, at an interest rate of 6.8% per annum, for successive six-month periods through March 2014. Under the terms of the security, the Company had the option, exercisable on March 31, 2014, to convert the outstanding principal into fixed percentages of equity interests in two companies which are affiliates of the Debtor. On March 31, 2014, the Company neither extended the debt security nor exercised the option, and accordingly the $81.3 million (or RMB0.5 billion) principal amount of the security was repaid to the Company on that date.

For the three and six months ended June 30, 2014, interest income generated from this debt security amounted to nil and $1.37 million, respectively. For the three and six months ended June 30, 2013, interest income generated from this debt security amounted to $1.39 million and $2.74 million, respectively.

The Sohu Group elected the fair value option to account for its investments in debt securities at their initial recognition. Changes in fair value were recognized in other income /(expense). For the three and six months ended June 30, 2014 and 2013, there was no change in fair value. To estimate fair value, the Group used the income approach, which considers the estimated future return from the investment and the probabilities of getting these returns. The Group classifies the valuation techniques that use these inputs as Level 3 of fair value measurements.

Repurchase Options and Put Option for Sogou Series A Preferred Shares

As discussed in Note 1—The Company and Basis of Presentation, in September 2013, Sogou entered into Repurchase Option Agreements with Sohu Search and Photon, and a Repurchase/Put Option Agreement with China Web, with respect to Series A Preferred Shares of Sogou held by them. On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of $47.3 million.

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

China Web’s put option with Sogou was initially recognized in other short-term liabilities in the Sohu Group’s consolidated balance sheets at fair value when the agreement was signed. Subsequent changes in the fair value of the put option were recognized quarterly in other income /(expense) in the Sohu Group’s consolidated statements of comprehensive income. In the first quarter of 2014, while the put option remained outstanding, the changes in the fair value of the put option of $2.3 million were recognized in other income in the Sohu Group’s consolidated statements of comprehensive income. After Sogou’s repurchase of the Series A Preferred Shares from China Web, the other short-term liabilities recognized with respect to China Web were reversed to zero.

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

Other Financial Instruments

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

Short-term Receivables and Payables

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

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

Prepaid Non-current Assets and Long-term Payables

Prepaid non-current assets are financial assets with carrying values that approximate fair value because the impact of applying a discount rate to the carrying values would be immaterial. Long-term accounts payable are financial liabilities with carrying values that approximate fair value due to any changes in fair value, after considering the discount rate, being immaterial. For prepaid non-current assets and long-term accounts payable, the Group estimated fair values using the discounted cash flow method, which is unobservable in the market. The Sohu Group classifies the valuation technique as Level 3 of fair value measurements.

6. Goodwill

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

	Brand Advertising and others	Sogou	Changyou	Total
Balance as of December 31, 2013				
Goodwill	$ 58,042	$6,290	$185,452	$249,784
Accumulated impairment losses	(35,788)	0	(5,201)	(40,989)
	$ 22,254	$6,290	$180,251	$208,795
Transactions in 2014				
Measurement period adjustment of goodwill for the acquisition of Soso search-related businesses from Tencent	0	42	0	42
Foreign currency translation adjustment	(1)	(58)	(1,237)	(1,296)
Balance as of June 30, 2014	$ 22,253	$6,274	$179,014	$207,541
Balance as of June 30, 2014				
Goodwill	$ 58,041	$6,274	$184,215	$248,530
Accumulated impairment losses	(35,788)	0	(5,201)	(40,989)
	$ 22,253	$6,274	$179,014	$207,541

7. Taxation

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

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

PRC Corporate Income Tax

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

Entities Qualified as HNTEs

As of June 30, 2014, the following entities were qualified as HNTEs: Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era"), Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet"), Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"), Sogou Information, Changyou's China-based subsidiary Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), Changyou's China-based VIE Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease"), and Shenzhen 7Road Technology Co., Ltd. ("Shenzhen 7Road").

Entities Qualified as Software Enterprises

As of June 30, 2014, the following entities were qualified as Software Enterprises: Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum"), AmazGame, Shenzhen 7Road, Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace"), ICE Information Technology (Shanghai) Co., Ltd. ("ICE Information"), Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE") and Shenzhen 7Road Network Technologies Co., Ltd. ("7Road Technology"). AmazGame also qualified as a "Key National Software Enterprise."

Applicable Income Tax Rate

As of June 30, 2014, Sohu Era, Sohu Media, Sohu Internet, Sogou Technology, Sogou Information, Gamease and Shenzhen7Road were entitled to an income tax rate of 15% as HNTEs; Gamespace and Shanghai ICE were entitled to an income tax rate of 12.5% as Software Enterprises; and Sohu New Momentum was in its first income tax exemption year as a Software Enterprise. 7Road Technology was in its second income tax exemption year as a Software Enterprise. AmazGame was entitled to an income tax rate of 10% as a Key National Software Enterprise. ICE Information was not subject to income tax as it has been incurring losses.

Sohu Era, Sohu Media, Sogou Technology, AmazGame, Gamease and Shenzhen 7Road will need to re-apply for HNTE status prior to September 2014. Pending approval of their re-applications, each of these companies will be entitled to continue to enjoy their beneficial tax rates as if they had already qualified as HNTEs for 2014. Sohu Internet and Sogou Information will need to re-apply for HNTE status in 2015, and AmazGame will need to re-apply for Key National Software Enterprise status in 2015.

PRC Withholding Tax on Dividends

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

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

As of June 30, 2014, Changyou had accrued deferred tax liabilities in the amount of $20.6 million for PRC withholding tax.

PRC Value-Added Tax and Business Tax

Effective September 1, 2012, a pilot program (the "Pilot Program") for transition from the imposition of PRC business tax ("Business Tax") to the imposition of value-added tax ("VAT") for revenues from certain industries was expanded from Shanghai to eight other cities and provinces in China, including Beijing and Tianjin. Commencing August 1, 2013 the Pilot Program was expanded to all regions in the PRC. All the Sohu Group's brand advertising and search revenues as well as certain online game revenues were subject to the Pilot Program.

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

The Group adopted the net presentation method for its brand advertising and search businesses both before and after the implementation of the Pilot Program. The Group adopted the gross presentation method for revenues of 7Road deemed to be derived from the sale of software both before and after the implementation of the Pilot Program.

U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of 34% or 35%. To the extent that it has U.S. taxable income, the Sohu Group accrues U.S. corporate income tax in its consolidated statements of comprehensive income and makes estimated tax payments as and when required by U.S. law.

Uncertain Tax Positions

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

8. Commitments and Contingencies

Unconditional Obligations

As of June 30, 2014, the Sohu Group had commitments for bandwidth purchases in the amount of $76.3 million, commitments for video content purchases in the amount of $52.2 million, commitments for operating leases in the amount of $45.4 million, commitments for purchases of games developed by third-parties in the amount of $44.8 million, commitments for purchases of cinema advertisement slot rights in the amount of $30.2 million and commitments for other content and service purchases in the amount of $28.0 million.

Litigation

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

PRC Law and Regulations

The Chinese market in which the Sohu Group operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability to operate an Internet business and to conduct brand advertising, search and others, online game, and others services in the PRC. Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the telecommunication, information, and media industries remain highly regulated. Restrictions are currently in place and are unclear with respect to which segments of these industries foreign-owned entities, like the Sohu Group, may operate. The Chinese government may issue from time to time new laws or new interpretations of existing laws to regulate areas such as telecommunication, information and media. Certain risks related to PRC law that could affect the Sohu Group's VIE structure are discussed in Note 10—VIE.

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

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

9. Contingent Consideration

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

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

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

10. VIE

Background

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

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

VIEs Consolidated within the Sohu Group

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

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

Under contractual agreements with the Sohu Group, Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs are required to transfer their ownership in these entities to the Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Group at any time as requested by the Group to repay the loans outstanding. All voting rights of the consolidated VIEs are assigned to the Sohu Group, and the Group has the right to designate all directors and senior management personnel of the consolidated VIEs, and also has the obligation to absorb losses of the consolidated VIEs. Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs have pledged their shares in the consolidated VIEs as collateral for the loans. As of June 30, 2014, the aggregate amount of these loans was $14.9 million.

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Under its contractual arrangements with the consolidated VIEs, the Sohu Group has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Group considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of June 30, 2014, the registered capital and PRC statutory reserves of the consolidated VIEs totaled $56.4 million. As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the consolidated VIEs do not have recourse to the general credit of the Sohu Group for any of the liabilities of the consolidated VIEs. Currently there is no contractual arrangement that could require the Sohu Group to provide additional financial support to the consolidated VIEs. As the Sohu Group is conducting certain business in the PRC mainly through the consolidated VIEs, the Group may provide such support on a discretionary basis in the future, which could expose the Group to a loss.

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

Basic Information

Corporate

High Century

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

Heng Da Yi Tong

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

Sohu Internet

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

SohuPay

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

For the Online Advertising Business

Brand Advertising Business

Donglin

Beijing Sohu Donglin Advertising Co., Ltd. (“Donglin”) was incorporated in 2010. As of June 30, 2014, the registered capital of Donglin was $1.5 million and High Century and Sohu Internet each held a 50% interest in this entity.

Pilot New Era

Beijing Pilot New Era Advertising Co., Ltd. (“Pilot New Era”) was incorporated in 2010. As of June 30, 2014, the registered capital of Pilot New Era was $0.7 million and High Century and Sohu Internet each held a 50% interest in this entity.

Focus Yiju

Beijing Focus Yiju Network Information Technology Co., Ltd. (“Focus Yiju”) was acquired in 2011. As of June 30, 2014, the registered capital of Focus Yiju was $1.6 million and High Century held 100% of the equity interests in this entity.

Tianjin Jinhu

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

Search and Others Business

Sogou Information

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

Shi Ji Guang Su

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

For the Online Game Business

Gamease

Gamease was incorporated in 2007. As of June 30, 2014, the registered capital of Gamease was $1.3 million and Tao Wang, Chief Executive Officer of Changyou, and Dewen Chen, President of Changyou, held 60% and 40% interests, respectively, in this entity.

Shanghai ICE

Shanghai ICE was acquired by Changyou in 2010. As of June 30, 2014, the registered capital of Shanghai ICE was $1.2 million and Runa Pi and Rong Qi each held a 50% interest in this entity.

Guanyou Gamespace

Guanyou Gamespace was incorporated in 2010. As of June 30, 2014, the registered capital of Guanyou Gamespace was $1.5 million and Tao Wang and Dewen Chen held 60% and 40% interests, respectively, in this entity.

Zhi Hui You

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

Shenzhen 7Road

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

Doyo

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

Changyou e-pay

Beijing Changyou e-pay Co. Ltd. ("Changyou e-pay") was incorporated in 2013. As of June 30, 2014, the registered capital of Changyou e-pay was $1.6 million and Gamease held 100% of the equity interests in this entity.

Aishouxin

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

Changyou Thai

Changyou.com (TH) Limited ("Changyou Thai") was incorporated in April 2014. As of June 30, 2014, the registered capital of Changyou Thai was $0.3 million and a third-party entity and Changyou.com HK Limited held 51% and 49% interests, respectively, in this entity.

For the Others Business

GoodFeel

Beijing GoodFeel Technology Co., Ltd. ("GoodFeel") was acquired in 2004. As of June 30, 2014, the registered capital of GoodFeel was $1.2 million and James Deng and Jing Zhou, held 58.1% and 41.9% interests, respectively, in this entity.

21 East Beijing

Beijing 21 East Culture Development Co., Ltd. ("21 East Beijing") was acquired in 2006. As of June 30, 2014, the registered capital of 21 East Beijing was $1.6 million and High Century held 100% of the equity interests in this entity.

Yi He Jia Xun

Beijing Yi He Jia Xun Information Technology Co., Ltd. ("Yi He Jia Xun") was acquired in September 2011. As of June 30, 2014, the registered capital of Yi He Jia Xun was $2.1 million and Gang Fang and Yanfeng Lv each held a 50% interest in this entity.

Financial Information

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

	As of	
	June 30, 2014	December 31, 2013
ASSETS:		
Cash and cash equivalents	$ 64,918	$ 112,316
Short-term investments	0	2,460
Accounts receivable, net	91,350	95,595
Prepaid and other current assets	36,884	41,838
Intercompany receivables due from the Company's subsidiaries	116,960	223,877
Total current assets	310,112	476,086
Fixed assets, net	10,351	8,190
Goodwill	138,243	139,478
Intangible assets, net	37,203	35,135
Other non-current assets	68,719	61,550
Total assets	$ 564,628	$ 720,439
LIABILITIES:		
Accounts payable	$ 4,762	$ 16,167
Accrued and other short-term liabilities	107,071	343,834
Receipts in advance and deferred revenue	43,050	60,140
Intercompany payables due to the Company's subsidiaries	217,889	12,059
Total current liabilities	372,772	432,200
Other long-term liabilities	6,158	9,560
Total liabilities	$ 378,930	$ 441,760

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net revenue	$ 254,129	$ 254,165	$ 505,249	$ 500,586
Net income /(loss)	$ (43,785)	$ 9,090	$ (88,459)	$ 19,872

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

Cash flows of Sohu's VIEs

	Six months ended June 30,	
	2014	2013
Net cash provided by operating activities	$ 15,935	$ 2,795
Net cash used in investing activities	(979)	(991)
Net cash provided by financing activities	$ 0	$ 0

Cash flows of Changyou's VIEs

	Six months ended June 30,	
	2014	2013
Net cash provided by operating activities	$ 23,802	$ 28,842
Net cash used in investing activities	(84,578)	(55,869)
Net cash used in financing activities	$ (793)	$ 0

Summary of Significant Agreements Currently in Effect

Agreements between Consolidated VIEs and Nominee Shareholders

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

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

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

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

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

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

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

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

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

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

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

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

Business operation agreements among AmazGame, Gamease and the shareholders of Gamease and among Gamespace, Guanyou Gamespace and the shareholders of Guanyou Gamespace. These agreements set forth the rights of AmazGame and Gamespace, respectively, to control the actions of the shareholders of Gamease and Guanyou Gamespace, respectively. The agreements have a term of 10 years.

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

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

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

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

Amended and restated equity interest purchase right agreement among 7Road Technology, Shenzhen 7Road and Gamease, which is Shenzhen 7Road’s sole shareholder. Under this agreement, 7Road Technology and any third-party designated by 7Road Technology have the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from Gamease all or any part of its shares in Shenzhen 7Road at a nominal purchase price. This agreement has a term of 10 years, is renewable by 7Road Technology for such term as it may determine and is terminable by 7Road Technology by notice to the other parties at any time when, under PRC law as then in effect, 7Road Technology cannot exercise its purchase right, and is also terminable if Shenzhen 7Road’s or 7Road Technology’s existence is terminated, by mutual agreement of the parties or upon the written request of 7Road Technology. Neither Gamease nor Shenzhen 7Road has any power to terminate the agreement.

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

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

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

<u>Business Arrangements between Subsidiaries and Consolidated VIEs</u>

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

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

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

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

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

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

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

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

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

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

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

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

VIE-Related Risks

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

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

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

VIEs Not Consolidated within the Sohu Group

As of June 30, 2014, Sohu acquired a 25% equity interest and a 15% equity interest, respectively, in two VIEs to support Sohu's brand advertising business, for a total price of approximately $1.6 million. Since the Sohu Group neither has the power to direct these VIEs' activities that will significantly impact their economic performance nor has the obligation to absorb losses of, or the right to receive benefits from, these VIEs that could potentially be significant to these VIEs, the Group is not the primary beneficiary and, accordingly, the Group recognizes the investments under the equity method or the cost method according to the share percentage the Group holds. In assessing the maximum exposure to a loss on the investments compared to the cost of its investment, the Sohu Group determined that it did not have further obligations exceeding the cost of the investments and that there were no terms of the investment arrangements that could require the Sohu Group to provide further financial support to the VIEs.

11. Sohu.com Inc. Shareholders' Equity

Takeover Defense

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

Treasury Stock

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

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

Stock Incentive Plan

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

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1) Sohu.com Inc. Share-based Awards

Sohu's 2000 Stock Incentive Plan

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

For the three and six months ended June 30, 2014, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was nil and $1.4 million, respectively. For the three and six months ended June 30, 2013, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was $0.5 million and $1.2 million, respectively.

i) Summary of share option activity

A summary of share option activity under the Sohu 2000 Stock Incentive Plan as of and for the six months ended June 30, 2014 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, 2014	147	$ 18.87	1.39	$ 7,958
Exercised	(23)	18.62		
Forfeited or expired	0			
Outstanding at June 30, 2014	124	18.92	0.89	4,814
Vested at June 30, 2014	124	18.92	0.89	4,814
Exercisable at June 30, 2014	124	18.92	0.89	4,814

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sohu's closing stock price of $57.69 on June 30, 2014 and the exercise price of share options. The total intrinsic value of share options exercised for the six months ended June 30, 2014 was $1.3 million.

No options have been granted under Sohu's 2000 Stock Incentive Plan since 2006. For the three and six months ended June 30, 2014 and 2013, no compensation expense was recognized for share options because the requisite service periods for share options had ended by the end of 2009.

For the three and six months ended June 30, 2014, total cash received from the exercise of share options amounted to $0.1 million and $0.4 million, respectively. For the three and six months ended June 30, 2013, total cash received from the exercise of share options amounted to $0.3 million and $0.8 million, respectively.

ii) Summary of restricted share unit activity

A summary of restricted share unit activity under the Sohu 2000 Stock Incentive Plan as of and for the six months ended June 30, 2014 is presented below:

Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2014	123	$ 61.27
Granted	0	
Vested	(121)	61.27
Forfeited	(2)	61.27
Unvested at June 30, 2014	0	
Expected to vest thereafter	0	

For the three and six months ended June 30, 2014, total share-based compensation expense recognized for restricted share units was nil and $1.4 million, respectively. For the three and six months ended June 30, 2013, total share-based compensation expense recognized for restricted share units was $0.5 million and $1.2 million, respectively.

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

Sohu's 2010 Stock Incentive Plan

On July 2, 2010, Sohu's shareholders adopted the Sohu 2010 Stock Incentive Plan, which provides for the issuance of up to 1,500,000 shares of common stock, including shares issued pursuant to the vesting and settlement of restricted share units and pursuant to the exercise of share options. The maximum term of any stock right granted under the Sohu 2010 Stock Incentive Plan is ten years from the grant date. The Sohu 2010 Stock Incentive Plan will expire on July 1, 2020. As of June 30, 2014, 1,298,513 shares were available for grant under the Sohu 2010 Stock Incentive Plan.

A summary of restricted share unit activity under the Sohu 2010 Stock Incentive Plan as of and for the six months ended June 30, 2014 is presented below:

Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2014	123	$ 84.82
Granted	36	67.57
Vested	0	
Forfeited	(1)	70.88
Unvested at June 30, 2014	158	80.91
Expected to vest thereafter	118	54.46

For the three and six months ended June 30, 2014, total share-based compensation expense recognized for restricted share units was $1.3 million and $2.5 million, respectively. For the three and six months ended June 30, 2013, total share-based compensation expense recognized for restricted share units was $0.2 million and $0.4 million, respectively.

As of June 30, 2014, there was $6.3 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 1.16 years. The total fair value on their respective vesting dates of restricted share units that vested was nil during both the three months and the six months ended June 30, 2014 and 2013.

2) Changyou.com Limited Share-based Awards

Changyou's 2008 Share Incentive Plan

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

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

For the three and six months ended June 30, 2014, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was $0.5 million and $0.7 million, respectively. For the three and six months ended June 30, 2013, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was $0.4 million and $0.6 million, respectively.

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

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

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

Through June 30, 2014, in addition to the share-based awards granted before Changyou's IPO, Changyou had granted restricted share units, settleable upon vesting with the issuance of an aggregate of 1,787,552 ordinary shares, to certain of its executive officers other than Tao Wang and to certain of its other employees. These restricted share units are subject to vesting over a four-year period commencing on their grant dates. Share-based compensation expense for such restricted share units is recognized on an accelerated basis over the requisite service period. The fair value of restricted share units was determined based on the market price of Changyou's American depositary shares ("ADSs") on the grant date.

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

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

For the three and six months ended June 30, 2014, total share-based compensation expense recognized for the above restricted share units was $0.5 million and $0.7 million, respectively. For the three and six months ended June 30, 2013, total share-based compensation expense recognized for the above restricted share units was $0.4 million and $0.9 million, respectively.

As of June 30, 2014, there was $2.7 million of unrecognized compensation expense related to the unvested restricted share units. The expense is expected to be recognized over a weighted average period of 1.18 years. The total fair value of these restricted share units vested during the three and six months ended June 30, 2014 was $0.01 million and $0.44 million, respectively. The total fair value of these restricted share units vested during the three and six months ended June 30, 2013 was $4.4 million and $4.7 million, respectively.

Changyou 2014 Share Incentive Plan

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

3) Sogou Inc. Share-based Awards

Sogou 2010 Share Incentive Plan

Sogou adopted a share incentive plan on October 20, 2010 and amended it on June 18, 2013 to increase to 36,000,000 the number of Sogou ordinary shares issuable under the plan (as amended, the "Sogou 2010 Share Incentive Plan"). Awards of share rights may be granted under the Sogou 2010 Share Incentive Plan to management and employees of Sogou and of any present or future parents or subsidiaries or variable interest entities of Sogou. The maximum term of any share right granted under the Sogou 2010 Share Incentive Plan is ten years from the grant date. The Sogou 2010 Share Incentive Plan will expire on October 19, 2020. As of June 30, 2014, Sogou had granted options for the purchase of 35,162,750 ordinary shares under the 2010 Sogou Share Incentive Plan.

Of the granted options for the purchase of 35,162,750 shares, options for the purchase of 22,932,750 shares will become vested and exercisable in four equal installments, with each installment vesting upon a service period requirement for management and key employees being met, as well as Sogou's achievement of performance targets for the corresponding period. The performance target for each installment will be set at the beginning of each vesting period. Accordingly, for purposes of recognition of share-based compensation expense, each installment is considered to be granted as of that date. As of June 30, 2014, performance targets had been set for options for the purchase of 15,748,075 shares, subject to vesting upon service period requirements for management and key employees being met and Sogou's achievement of performance targets and, accordingly, such options were considered granted for purposes of recognition of share-based compensation expense. As of June 30, 2014, options for the purchase of 15,656,500 shares had become vested and exercisable because both the service period and the performance requirements had been met, and of such vested options, options for the purchase of 15,208,455 shares had been exercised.

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

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

All installments of options for the purchase of 8,270,000 shares that are subject to vesting upon completion of Sogou's IPO and options for the purchase of 3,960,000 shares that are subject to vesting upon the completion of an Event were considered granted upon the issuance of the options. The completion of an Event is considered to be a performance condition of the awards. An IPO or other Event is not considered to be probable until it is completed. Under *ASC 718*, compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these options until the completion of an Event, and hence no share-based compensation expense was recognized for the three and six months ended June 30, 2014 for the options for the purchase of 8,270,000 shares that are subject to vesting upon completion of Sogou's IPO or for the options for the purchase of 3,960,000 shares that are subject to vesting upon the completion of an Event.

A summary of share option activity under the Sogou 2010 Stock Incentive Plan as of and for the six months ended June 30, 2014 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2014	17,953	$ 0.251	
Granted	0		
Exercised	(5,174)	0.001	
Forfeited or expired	(10)	0.001	
Outstanding at June 30, 2014	12,769	0.353	8.61
Vested at June 30, 2014 and expected to vest thereafter	528		
Exercisable at June 30, 2014	448		

For the three and six months ended June 30, 2014, total share-based compensation expense recognized for share options under the Sogou 2010 Share Incentive Plan was $539,000 and $922,000, respectively. For the three and six months ended June 30, 2013, total share-based compensation expense recognized for share options under the Sogou 2010 Share Incentive Plan was $132,000 and $148,000, respectively.

As of June 30, 2014, there was $5,000 of unrecognized compensation expense related to the unvested share options. The expense is expected to be recognized over a weighted average period of 0.09 years.

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

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

Granted to Employees	2014
Average risk-free interest rate	2.10%~2.87%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	1.3%~6.0%
Weighted average expected option life	10
Volatility rate	47.00%~49.00%
Dividend yield	0%
Fair value	0.67

Sogou estimated the risk free rate based on the yield to maturity of China Sovereign bonds denominated in United States dollars as of the valuation date. An exercise multiple was estimated as the ratio of fair value of the shares over the exercise price as of the time the option is exercised, based on consideration of research studies regarding exercise patterns based on historical statistical data. In Sogou’s valuation analysis, a multiple of two was applied for employees and a multiple of three was applied for management. Sogou estimated the forfeiture rate to be 1.3% for Sogou management’s share options granted as of June 30, 2014 and 6.0% for Sogou employees’ share options granted as of June 30, 2014. The life of the share options is the contract life of the option. Based on the option agreement, the contract life of the option is 10 years. The expected volatility at the valuation date was estimated based on the historical volatility of comparable companies for the period before the grant date with length commensurate with the expected term of the options. Sogou has no history or expectation of paying dividends on its ordinary shares. Accordingly, the dividend yield is estimated to be 0%.

Share-based Awards to Sohu Management

Under the Sohu Management Sogou Share Option Arrangement, which was approved by the boards of directors of Sohu and Sogou in March 2011, Sohu has the right to provide to Sohu management and key employees the opportunity to purchase from Sohu up to 12,000,000 ordinary shares of Sogou at a fixed exercise price of $0.625 per share. Of these 12,000,000 ordinary shares, 8,800,000 are Sogou ordinary shares previously held by Sohu and 3,200,000 are Sogou ordinary shares that were newly-issued on April 14, 2011 by Sogou to Sohu at a price of $0.625 per share, or a total of $2 million. As of June 30, 2014, Sohu had granted options for the purchase of 10,776,000 Sogou ordinary shares to Sohu management and key employees under the Sohu Management Sogou Share Option Arrangement.

Of the granted options for the purchase of 10,776,000 shares, options for the purchase of 8,376,000 shares will become vested and exercisable in four equal installments, with each installment vesting upon a service period requirement for management and key employees being met, as well as Sogou’s achievement of performance targets for the corresponding period. The performance target for each installment will be set at the beginning of each vesting period. Accordingly, for purposes of recognition of share-based compensation expense, each installment is considered to be granted as of that date. As of June 30, 2014, performance targets had been set for options for the purchase of 6,585,750 shares vesting upon service period requirements for management and key employees being met and Sogou’s achievement of performance targets and, accordingly, such share options were considered granted. As of June 30, 2014, options for the purchase of 6,585,750 shares had become vested and exercisable because both the service period and the performance requirements had been met, and vested options for the purchase of 6,363,000 shares had been exercised.

The remaining options for the purchase of 2,400,000 shares will become vested and exercisable in five equal installments, with (i) the first installment vesting upon Sogou’s IPO and the expiration of all underwriters’ lockup periods applicable to the IPO, and (ii) each of the four subsequent installments vesting on the first, second, third and fourth anniversary dates, respectively, of the closing of Sogou’s IPO. All installments of the options for the purchase of 2,400,000 shares that are subject to vesting upon the completion of Sogou’s IPO were considered granted upon the issuance of the options. The completion of a firm commitment IPO is considered to be a performance condition of the awards. An IPO event is not considered to be probable until it is completed. Under *ASC 718*, compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these options until the completion of an IPO, and hence no share-based compensation expense was recognized for the three and six months ended June 30, 2014 for these options for the purchase of 2,400,000 shares.

A summary of share option activity as of and for the six months ended June 30, 2014 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2014	3,880	$ 0.625	
Granted	0		
Exercised	(1,258)	0.625	
Forfeited or expired	0		
Outstanding at June 30, 2014	2,622	0.625	8.54
Vested at June 30, 2014	223		
Exercisable at June 30, 2014	223		

For both the three months and the six months ended June 30, 2014, total share-based compensation expense recognized for share options under the Sohu Management Sogou Share Option Arrangement was $1.3 million. For both the three months and the six months ended June 30, 2013, total share-based compensation expense recognized for share options under the Sohu Management Sogou Share Option Arrangement was $22,000. As of June 30, 2014, the unrecognized compensation expense was nil.

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

Granted to Employees	2014
Average risk-free interest rate	2.10%~2.87%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	0%-8%
Weighted average expected option life	10
Volatility rate	47.00%-48.00%
Dividend yield	0%
Fair value	0.27-0.38

Option Modification

In the first and second quarter of 2013, a portion of the share options granted under the Sogou 2010 Share Incentive Plan and the Sohu Management Sogou Share Option Arrangement were exercised early, and the resulting Sogou ordinary shares were transferred to trusts with the original option grantees as beneficiaries. The trusts will distribute the shares to those beneficiaries in installments based on the vesting requirements under the original option agreements. Although these trust arrangements caused a modification of the terms of these share options, the modification was not considered substantive. Accordingly, no incremental fair value related to these shares resulted from the modification, and the remaining share-based compensation expense for these shares will continue to be recognized over the original remaining vesting period.

As of June 30, 2014, options for the purchase of 15,320,000 shares granted under the Sogou 2010 Share Incentive Plan and options for the purchase of 612,500 shares granted under the Sohu Management Sogou Share Option Arrangement, or options for the purchase of a total of 15,932,500 shares, had been exercised early but had not been distributed to the beneficiaries of the trusts. All of the early-exercised shares that were distributed to those beneficiaries by the trusts in accordance with the vesting requirements under the original option agreements have been included in the disclosures under the headings "*Sogou 2010 Share Incentive Plan*" and "*Share-based Awards to Sohu Management*" above.

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

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

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As of June 30, 2014, unvested Tencent restricted share unit awards held by these employees provided for the issuance of up to 670,720 ordinary shares of Tencent, taking into consideration a five-for-one split of Tencent's shares that became effective in May 2014. Share-based compensation expense of $1.8 million and $3.7 million, respectively, related to these Tencent restricted share units was recognized in the Group's consolidated statements of comprehensive income for the three and six months ended June 30, 2014. As of June 30, 2014, there was $4.5 million of unrecognized compensation expense related to these unvested restricted share units. This amount is expected to be recognized over a weighted average period of 2.9 years.

Sogou Share Repurchase Transaction

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

4) Sohu Video Share-based Awards

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

For both the three months and the six months ended June 30, 2014, total share-based compensation expense recognized for vested options under the Video 2011 Share Incentive Plan was $4.2 million.

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

Assumptions Adopted	2014
Average risk-free interest rate	3%
Exercise multiple	2.8
Expected forfeiture rate (post-vesting)	10%
Weighted average expected option life	7.5
Volatility rate	61%
Dividend yield	0%
Fair value	0.85

5) 7Road Share-based Awards

See Note 3—Share-Based Compensation Expense.

12. Business Transactions

Sogou Transactions

Sogou-Tencent Transactions

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

On September 16, 2013, Sogou entered into a series of agreements with Tencent, Sohu Search and Photon pursuant to which Sogou issued Series B Preferred Shares and Class B Ordinary Shares to Tencent for a net amount of $448 million in cash and Tencent transferred its Soso search-related businesses and certain other assets to Sogou. Also on that date, Sogou entered into Repurchase Option Agreements with Sohu Search and Photon, and a Repurchase/Put Option Agreement with China Web, with respect to all of the Series A Preferred Shares of Sogou held by Sohu Search and China Web, and a portion of the Series A Preferred Shares of Sogou held by Photon. On September 17, 2013, Sogou paid a special dividend to the three holders of Series A Preferred Shares of Sogou in the aggregate amount of $301 million, of which Sohu Search received $161 million, Photon received $43 million, and China Web received $97 million. On December 2, 2013, Tencent invested $1.5 million in cash in Sogou's VIE Sogou Information, as additional consideration for the Sogou-Tencent Transactions, in return for a 45% equity interest in Sogou Information. Through a share pledge agreement and an exclusive equity interest purchase right agreement between Tencent and Sogou Technology, and similar agreements between the other two shareholders of Sogou Information, Sogou Technology controls all shareholder voting rights in Sogou Information, has the power to direct the activities of Sogou Information, and is the primary beneficiary of Sogou Information, and Tencent and the other two shareholders of Sogou Information act as Sohu Technology's nominees.

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

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

Sohu's Shareholding in Sogou

As of June 30, 2014, Sogou had outstanding a combined total of 357,389,288 ordinary shares and preferred shares held as follows:

(i) Sohu:

132,850,250 Class A Ordinary Shares and 24,000,000 Series A Preferred Shares. Of the Class A Ordinary Shares, 5,650,250 shares are subject to purchase from Sohu under options held by Sohu management and key employees. All of the 24,000,000 Series A Preferred Shares are subject to repurchase by Sogou commencing March 16, 2014;

(ii) Photon:

38,400,000 Series A Preferred Shares, of which 6,400,000 are subject to repurchase by Sogou commencing March 16, 2014;

(iii) Tencent:

6,757,875 Class A Ordinary Shares, 65,431,579 Series B Preferred Shares and 79,368,421 non-voting Class B Ordinary Shares; and

(iv) Various employees of Sogou and Sohu: 10,581,163 Class A Ordinary Shares.

Since Sohu controls the election of the Board of Directors of Sogou, Sohu is Sogou's controlling shareholder. Therefore, Sohu consolidates Sogou in the Sohu Group's consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

Because no ordinary shares will be issued with respect to share options granted by Sogou until they are vested and exercised, share options granted by Sogou that have not vested and vested share options that have not yet been exercised are not included as outstanding shares of Sogou and have no impact on the Sohu Group's basic net income per share. Unvested share options with performance targets achieved and vested share options that have not yet been exercised do, however, have a dilutive impact on the Sohu Group's dilutive net income per share. See Note 15—Net Income /(Loss) per Share.

Terms of Sogou Preferred Shares

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

Dividend Rights

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

Liquidation Rights

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

Redemption Rights

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

Conversion Rights

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

Voting Rights

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

Other Rights

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

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

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

Changyou Share Repurchase Transactions

On July 27, 2013, Changyou's Board of Directors authorized a share repurchase program of up to $100 million of the outstanding ADSs of Changyou over a two-year period from July 27, 2013 to July 26, 2015. During the six months ended June 30, 2014, Changyou did not repurchase any of its ADSs under the share repurchase program.

13. Mezzanine Equity

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

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

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the noncontrolling shareholders. The acquisition closed on June 5, 2013, and 7Road has been a wholly-owned subsidiary of Changyou since then. As the put option held by the owners of the noncontrolling interest lapsed upon the closing of Changyou's acquisition of their shares in 7Road, there was no associated accretion and no mezzanine equity during and after the third quarter of 2013.

For the three and six months ended June 30, 2013, accretion charges of $7.1 million and $17.8 million, respectively, were recorded in the Sohu Group's statements of comprehensive income as net income attributable to the mezzanine-classified noncontrolling interest shareholders of 7Road. There was no associated accretion in 2014, as no mezzanine equity existed after Changyou's acquisition on June 5, 2013 of all of the ordinary shares of 7Road held by the noncontrolling shareholders.

14. Noncontrolling Interest

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

Noncontrolling Interest for Changyou

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

Noncontrolling Interest for Sogou

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

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

(i) net losses were allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares until their basis in Sogou decreased to zero;

(ii) additional net losses were allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreased to zero;

(iii) additional net losses will be allocated to the holder of Sogou Series B Preferred Shares until its basis in Sogou decreases to zero; and

(iv) further net losses will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

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

(i) net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;

(ii) additional net income will be allocated to the holder of Sogou Series B Preferred Shares to bring its basis back;

(iii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;

(iv) further net income will be allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares to bring their basis back; and

(v) further net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Noncontrolling Interest in the Consolidated Balance Sheets

As of June 30, 2014 and December 31, 2013, noncontrolling interest in the consolidated balance sheets was $414.0 million and $510.0 million, respectively.

	As of	
	June 30, 2014 (in thousands)	December 31, 2013 (in thousands)
Changyou	$ 298,415	$ 307,898
Sogou	112,661	199,059
Others	2,949	3,058
Total	$ 414,025	$ 510,015

Noncontrolling Interest of Changyou

As of June 30, 2014 and December 31, 2013, the noncontrolling interest of Changyou was recognized in the Sohu Group’s consolidated balance sheets, representing as of both dates a 32% economic interest in Changyou’s net assets held by shareholders other than Sohu and reflecting the reclassification of Changyou’s share-based compensation expense from shareholders’ additional paid-in capital to noncontrolling interest.

Noncontrolling Interest of Sogou

As of June 30, 2014 and December 31, 2013, the noncontrolling interest of Sogou was recognized in the Sohu Group’s consolidated balance sheets, representing Sogou’s cumulative results of operations attributable to shareholders other than Sohu, Sogou’s share-based compensation expense, and the investments of shareholders other than Sohu in Preferred Shares and Ordinary Shares of Sogou, the adjustment of the investment basis of shareholders other than Sohu due to the special dividend paid to holders of Series A Preferred Shares of Sogou on September 17, 2013, the repurchase of Sogou Series A Preferred Shares from China Web on March 24, 2014, and Sogou’s repurchase of Class A Ordinary Shares from noncontrolling shareholders in June 2014.

Noncontrolling Interest in the Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2014, net loss attributable to the noncontrolling interest in the consolidated statements of comprehensive income was $9.4 million and $14.4 million, respectively, compared with net income attributable to the noncontrolling interest of $24.5 million and $47.6 million, respectively, for the three months and six months ended June 30, 2013.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Changyou	$ 222	$24,656	$ (6,408)	$49,890
Sogou	(9,853)	(37)	(8,735)	(1,966)
Others	188	(114)	765	(353)
Total	$(9,443)	$24,505	$(14,378)	$47,571

Noncontrolling Interest of Changyou

For the three months ended June 30, 2014 and 2013, the net income attributable to the noncontrolling interest of Changyou was recognized in the Sohu Group's consolidated statements of comprehensive income, representing a 32% and a 33%, respectively, economic interest in Changyou attributable to shareholders other than Sohu.

Noncontrolling Interest of Sogou

For the three months ended June 30, 2014 and 2013, the net loss attributable to the noncontrolling interest of Sogou was recognized in the Sohu Group's consolidated statements of comprehensive income, representing Sogou's net loss attributable to shareholders other than Sohu.

15. Net Income/(Loss) per Share

Basic net income /(loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income /(loss) per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income /(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income /(loss) per share. For the three and six months ended June 30, 2014, 94,000 and 121,000, respectively, common shares potentially issuable upon the exercise or settlement of share-based awards using the treasury stock method were anti-dilutive and excluded from the denominator for calculation of diluted net loss per share.

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

(1) Changyou's net income /(loss) attributable to the Sohu Group is determined using the percentage that the weighted average number of Changyou shares held by Sohu represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of the Sohu Group's diluted net income /(loss) per share, assuming a dilutive effect, all of Changyou's existing unvested restricted share units, and vested restricted share units that have not yet been settled, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income /(loss) attributable to the Sohu Group on a diluted basis decreased accordingly. The effect of this calculation is presented as "incremental dilution from Changyou" in the table below. Assuming an anti-dilutive effect, all of these Changyou restricted share units are excluded from the calculation of the Sohu Group's diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group's basic net income /(loss) per share.

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

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

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(2) Sogou's net income /(loss) attributable to the Sohu Group is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou Preferred Shares and Ordinary Shares, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and is not determined by allocating Sogou's net income /(loss) to the Sohu Group using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders discussed in Note 14—Noncontrolling Interest.

In the calculation of the Sohu Group's diluted net income /(loss) per share, assuming a dilutive effect, the percentage of the Sohu Group's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested share options with the performance targets achieved as well as vested but unexercised share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. The effect of this calculation is presented as "incremental dilution from Sogou" in the table below. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of the Sohu Group's diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group's basic net income /(loss) per share.

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator:				
Net income /(loss) attributable to Sohu.com Inc., basic (after subtracting the deemed dividend to noncontrolling Sogou Series A Preferred shareholders)	$(41,090)	$21,626	$(119,944)	$46,057
Effect of dilutive securities:				
Incremental dilution from Changyou	(3)	(101)	0	(426)
Incremental dilution from Sogou	(3,416)	(21)	(2,170)	(1,139)
Net income /(loss) attributable to Sohu.com Inc., diluted	$(44,509)	$21,504	$(122,114)	$44,492
Denominator:				
Weighted average basic common shares outstanding	38,475	38,259	38,443	38,214
Effect of dilutive securities:				
Share options and restricted share units	0	233	0	247
Weighted average diluted common shares outstanding	38,475	38,492	38,443	38,461
Basic net income /(loss) per share attributable to Sohu.com Inc.	$ (1.07)	$ 0.57	$ (3.12)	$ 1.21
Diluted net income /(loss) per share attributable to Sohu.com Inc.	$ (1.16)	$ 0.56	$ (3.18)	$ 1.16

16. Subsequent Events

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

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

Changyou, Baina, and MoboTap will also enter into a shareholder agreement pursuant to which Changyou will have the right to designate three of the five directors of MoboTap, including the chairman of the board; Changyou's approval will be required for any proposed transfers of equity interests in MoboTap held by Baina; and Changyou will be entitled to customary pre-emptive rights with respect to any new issuance of equity interests in MoboTap. In addition, if MoboTap achieves specified performance milestones for 2016 and certain other conditions specified in the shareholder agreement are not met, the founders of MoboTap, through Baina, will have a one-time right to put to Changyou shares of MoboTap representing up to 15% of MoboTap for an aggregate price of up to $53 million.

The transactions contemplated by the investment agreement and related documents are being completed in three stages, with the first two occurring in July 2014, and the final step, Changyou's purchase of the zero-coupon convertible bond, being expected to occur in August 2014, subject to receipt of regulatory approvals and other customary conditions.

17. Recently Issued Accounting Pronouncements

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

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

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

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

As used in this report, references to "us," "we," "our," "our company," "our Group," the "Group," "Sohu," the "Sohu Group," and "Sohu.com" are to Sohu.com Inc. and, except where the context requires otherwise, our wholly-owned and majority-owned subsidiaries and variable interest entities ("VIEs") Sohu.com Limited, Sohu.com (Hong Kong) Limited ("Sohu Hong Kong"), All Honest International Limited, Sohu.com (Game) Limited ("Sohu Game"), Go2Map Inc., Sohu.com (Search) Limited ("Sohu Search"), Sogou Inc. ("Sogou"), Sogou (BVI) Limited, Sogou Hong Kong Limited, Vast Creation Advertising Media Services Limited ("Vast Creation"), Fox Video Investment Holding Limited ("Video Investment"), Fox Video Limited ("Sohu Video"), Fox Video (HK) Limited ("Video HK"), Focus Investment Holding Limited ("Focus Investment"), Sohu Focus Limited ("Sohu Focus"), Sohu Focus (HK) Limited ("Focus HK"), Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era"), Beijing Sohu Software Technology Co., Ltd. ("New Software"), Beijing Sohu Interactive Software Co., Ltd. ("Sohu Software"), Go2Map Software (Beijing) Co., Ltd. ("Go2Map Software"), Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"), Beijing Sogou Network Technology Co., Ltd ("Sogou Network"), Fox Information Technology (Tianjin) Limited ("Video Tianjin"), Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), Beijing Focus Time Advertising Media Co., Ltd. ("Focus Time"), Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum"), Beijing Century High Tech Investment Co., Ltd. ("High Century"), Beijing Heng Da Yi Tong Information Technology Co., Ltd. ("Heng Da Yi Tong", formerly known as Beijing Sohu Entertainment Culture Media Co., Ltd. or "Sohu Entertainment"), Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet"), Beijing GoodFeel Technology Co., Ltd. ("GoodFeel"), Beijing Sogou Information Service Co., Ltd. ("Sogou Information"), Beijing 21 East Culture Development Co., Ltd. ("21 East Beijing"), Beijing Sohu Donglin Advertising Co., Ltd.("Donglin"), Beijing Pilot New Era Advertising Co., Ltd. ("Pilot New Era"), Beijing Focus Yiju Network Information Technology Co., Ltd. ("Focus Yiju"), SohuPay Science and Technology Co., Ltd. ("SohuPay"), Beijing Yi He Jia Xun Information Technology Co., Ltd. ("Yi He Jia Xun"), Tianjin Jinhu Culture Development Co., Ltd. ("Tianjin Jinhu"), Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. ("Shi Ji Guang Su"), Beijing Intelligence World Network Technology Co., Ltd. ("Intelligence World"), SendCloud Technology Co., Ltd. ("SendCloud") and our independently-listed majority-owned subsidiary Changyou.com Limited ("Changyou," formerly known as TL Age Limited) as well as the following direct and indirect subsidiaries and VIEs of Changyou: Changyou.com HK Limited ("Changyou HK," formerly known as TL Age Hong Kong Limited), Changyou.com Webgames (HK) Limited ("Changyou HK Webgames"), Changyou.com Gamepower (HK) Limited ("Changyou HK Gamepower"), ICE Entertainment (HK) Limited ("ICE HK"), Changyou.com Gamestar (HK) Limited ("Changyou HK Gamestar"), Changyou.com (US) LLC. (formerly known as AmazGame Entertainment (US) Inc.), Changyou.com (UK) Company Limited ("Changyou UK"), ChangyouMy Sdn. Bhd ("Changyou Malaysia"), Changyou.com Korea Limited ("Changyou Korea"), Changyou.com India Private Limited ("Changyou India"), Changyou BİLİŞİM HİZMETLERİ TİCARET LİMİTED ŞİRKETİ ("Changyou Turkey"), Kylie Enterprises Limited, Mobogarden Enterprises Limited, Heroic Vision Holdings Limited ("Heroic"), TalkTalk Limited ("TalkTalk"), RaidCall (HK) Limited ("RaidCall HK"), 7Road.com Limited ("7Road"), 7Road.com HK Limited ("7Road HK"), Changyou.com (TH) Limited ("Changyou Thai"), Changyou.com Rus Limited ("Changyou Rus"), PT.CHANGYOU TECHNOLOGY INDONESIA ("Changyou Indonesia"), Changyou Middle East FZ-LLC ("Changyou AUE"), Greative Digital Limited ("Greative Digital"), Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace"), ICE Information Technology (Shanghai) Co., Ltd. ("ICE Information"), Beijing Changyou RaidCall Internet Technology Co., Ltd. ("RaidCall"), Beijing Yang Fan Jing He Information Consulting Co., Ltd. ("Yang Fan Jing He"), Shanghai Jingmao Culture Communication Co., Ltd. ("Shanghai Jingmao"), Shanghai Hejin Data Consulting Co., Ltd. ("Shanghai Hejin"), Beijing Changyou Jingmao Film & Culture Communication Co., Ltd. ("Beijing Jingmao"), Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease"), Beijing Guanyou Gamespace Digital Technology Co., Ltd. ("Guanyou Gamespace"), Beijing Doyo Internet Technology Co., Ltd. ("Doyo Internet"), Beijing Zhi Hui You Information Technology Co., Ltd. ("Zhi Hui You"), Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE"), Shenzhen 7Road Network Technologies Co., Ltd. ("7Road Technology"), Shenzhen 7Road Technology Co., Ltd. ("Shenzhen 7Road"), Beijing Changyou e-pay Co. Ltd. ("Changyou e-pay"), Beijing Changyou Aishouxin Ecological Technology Co., Ltd. ("Aishouxin Ecological Technology"), and Shenzhen Brilliant Imagination Technologies Co., Ltd. ("Brilliant Imagination"), and these references should be interpreted accordingly. Unless otherwise specified, references to "China" or "PRC" refer to the People's Republic of China and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect," "anticipate," "intend," "believe," or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission ("SEC") on February 28, 2014, as updated by Part II Item 1A of this report. Readers are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

Sohu (NASDAQ: SOHU) is a leading Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices. We operate one of the most comprehensive matrices of Chinese language content and services, and developed and operate in China one of the most popular Chinese search engines, one of the most popular massively multiplayer online games ("MMOGs") and two popular Web games. Most of our operations are conducted through our indirect wholly-owned and majority-owned China-based subsidiaries and variable interest entities ("VIEs").

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

Factors and Trends Affecting our Business

With the accelerated shift in user activities from desktop computers ("PCs") to mobile devices and an increase in the number of Internet users, during the second quarter of 2014 our portfolio of mobile properties continued to gain traction. With this shift to mobile devices, we consider it to be essential for successful monetization for users to be induced to spend extended time on our offerings. For Sohu News, we made strides with our efforts to aggregate and analyze vast user data across our various properties to better understand our users' habits. With such analysis of vast user data, we were able to provide users more personalized content and so encourage them to stay longer on our news service, which is essential when users spend more time on mobile devices. For Sohu Video, leveraging our Group's multiple mobile gateways, including the Sohu Video App, Sohu News App, Sohu WAP portal and Sogou Pinyin mobile version, we have been able to cross-market our video content to a vast population of users. As a result, our news and video businesses made solid progress in mobile monetization as our large user base successfully attracted a growing number of advertisers. For the second quarter of 2014, mobile advertising revenues for both of our news and video businesses grew in triple-digits from the prior quarter. Despite solid revenue growth, we incurred operating losses in the online video business in the second quarter, as we have in the past few years. We expect that the industry-wide unfavorable cost structure will continue to overshadow the profitability outlook for the entire industry, including us. Key factors that have negatively impacted our profitability include intensified competition for premium licensed content, which resulted in increased content costs; and surging mobile video traffic, which drove up bandwidth costs. We continue to believe, however, that well-targeted investment in our video business is important in order for us to maintain our competitiveness.

On September 16, 2013, we entered into a strategic cooperation with Tencent Holdings Limited (Tencent Holdings Limited together with its subsidiaries, "Tencent"), in connection with which Tencent invested in our search subsidiary Sogou. We believe that this strategic cooperation has reinforced Sogou as a leader in the large and fast-growing China market for search and Internet services, particularly for the mobile platform. In the online search sector, Sogou is one of the top three PC search players in China, and we have demonstrated strengthened competitiveness in mobile search. In the second quarter of 2014, with our consistent efforts to improve search quality and user experience, overall search traffic continued to grow quickly. In particular, mobile search traffic increased by more than 30% compared to the prior quarter. On the monetization front, in the second quarter of 2014 the number of search advertisers and the average revenue per advertiser increased nicely year on year. Our fees per click grew healthily, with mobile fees per click growing faster than that for PCs. We also saw an increase in the number of advertising customers who chose to spend for mobile search. We expect our search and others business to sustain healthy growth through 2014.

For our online games business conducted by Changyou, Tian Long Ba Bu ("TLBB"), which we developed and currently operate in China, continues to account for a majority of our online game revenues. Our two popular web games, Wartune and DDTank, have entered into a relatively mature phase and their revenues are trending down in China. Revenues from overseas for Wartune and DDTank are stable. We expect to launch a number of new MMOGs, Web games and mobile games in the second half of 2014 to diversify our offering of games and revenues. With more Internet users playing games across multiple devices on PCs and mobile devices, in order to capture new business opportunities arising from this trend and strengthen our capabilities to distribute and promote games across various devices, Changyou is investing heavily in the development and marketing of new software applications. Such investment has led to a decline in Changyou's profitability. In the second quarter of 2014, total average monthly active users of Changyou's platform channels were 252 million. Changyou will continue its aggressive investment for the rest of the year, and we expect to generate net losses every quarter for the remainder of 2014.

Summary of Our Business

Online Advertising Business

Brand Advertising Business

Our brand advertising business offers to users, over our matrices of Chinese language online media content and services, various products and services (such as free of charge content, including news, video, interactive community and other competitive Internet services and membership services) across multiple Internet-enabled devices, such as PCs, mobile phones and tablets. It also offers advertisements on Sohu Group Web properties to companies seeking to increase their brand awareness online.

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

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

For the three and six months ended June 30, 2014, brand advertising revenues were $133.4 million and $244.5 million, respectively, which represented 33% and 32%, respectively, of our total revenues, of which $14.7 million and $24.0 million, respectively, was attributable to 17173.com.

Search and Others Business

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

For the three and six months ended June 30, 2014, our search and others revenues were $85.1 million and $149.4 million, respectively, which represented 21% and 20%, respectively, of our total revenues.

Online Game Business

Our online game business is conducted by our majority-owned subsidiary Changyou. Changyou is a leading online game developer and operator in China as measured by the popularity of its MMOG TLBB and its Web games DDTank and Wartune, which Changyou developed in-house. Changyou engages in the development, operation and licensing of online games for PCs and mobile devices. Changyou’s online games include MMOGs, which are interactive online games that may be played simultaneously by hundreds of thousands of game players, Web games, which are played over the Internet using a Web browser, and mobile games, which are played on mobile devices with an Internet connection.

For the three and six months ended June 30, 2014, our online game revenues were $153.9 million and $317.3 million, respectively, which represented 38% and 41%, respectively, of our total revenues.

Others Business

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

Business Transactions

Sogou Transactions

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

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

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

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

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

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

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

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

Pursuant to the Shareholders Agreement, Sohu will hold approximately 53% of the total voting power for the election of the Board of Directors of Sogou, assuming that the remaining repurchase options are exercised, Tencent's non-voting Class B Ordinary Shares are converted to voting shares, and all share options under the Sogou 2010 Share Incentive Plan and all share options under an arrangement providing for Sogou share-based awards to be available for grants to Sohu management and key employees are granted and exercised. As Sohu is the controlling shareholder of Sogou, we consolidate Sogou in the Sohu Group's consolidated financial statements, and recognize noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

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

Basis of Consolidation

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

VIE Consolidation

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

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Noncontrolling Interest Recognition

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

Noncontrolling Interest for Changyou

As of June 30, 2014, Sohu held approximately 68% of the combined total of Changyou's outstanding ordinary shares and controlled approximately 83% of the total voting power in Changyou. As Sohu is Changyou's controlling shareholder, we consolidate Changyou in our consolidated financial statements, but recognize noncontrolling interest reflecting the economic interest in Changyou held by shareholders other than Sohu.

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

Noncontrolling Interest for Sogou

Since Sohu controls the election of the Board of Directors of Sogou, Sohu is Sogou's controlling shareholder. Therefore we consolidate Sogou in the Sohu Group's consolidated financial statements, and recognize noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu. To reflect the economic interest in Sogou held by shareholders other than Sohu (the "Sogou noncontrolling shareholders"), Sogou's net income /(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity /(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Preferred Shares and Ordinary Shares are accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as redemption of the noncontrolling interest is solely within the control of Sohu. These treatments are based on the terms governing investment, and on the terms of the classes of Sogou shares held by the noncontrolling shareholders in Sogou.

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

(i) net losses were allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares until their basis in Sogou decreased to zero;

(ii) additional net losses were allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreased to zero;

(iii) additional net losses will be allocated to the holder of Sogou Series B Preferred Shares until its basis in Sogou decreases to zero; and

(iv) further net losses will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

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

(i) net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;

(ii) additional net income will be allocated to the holder of Sogou Series B Preferred Shares to bring its basis back;

(iii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;

(iv) further net income will be allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares to bring their basis back; and

(v) further net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Segment Reporting

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

Revenue Recognition

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

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

Online Advertising Revenues

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

We recognize gross revenue for the amount of fees we receive from our advertisers. Determining whether revenue should be reported gross or net is based on an assessment of various factors. The primary factor is whether we are acting as the principal in offering services to the customer or whether we are acting as an agent in the transaction. Whether we are serving as principal or agent in a transaction is judgmental in nature and is determined by evaluating the terms of the arrangement. Our revenues from online advertising services are recognized on a gross basis, as we have the primary responsibility for fulfillment and acceptability. These revenues are recognized after deducting agent rebates and net of value-added tax ("VAT") and related surcharges.

Brand Advertising Revenues

Business Model

Through PCs and mobile devices, we provide advertisement placements to our advertisers on different Website channels and in different formats, which include, among other things, banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, and pause video screens, as well as loading page ads and news feed ads on our News App.

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

Fixed Price model

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

CPM model

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

E-commerce model

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

Revenue Recognition

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

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

Search and Others Revenues

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

Pay-for-click Services

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

Online Marketing Services on the Sogou Web Directory

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

Sogou Website Alliance

Both pay-for-click services and online marketing services on the Sogou Web Directory expand distribution of advertisers' Website links or advertisements by leveraging traffic on Sogou Website Alliance members' Websites. We recognize gross revenue for the amount of fees we receive from advertisers, as we have the primary responsibility for fulfillment and acceptability. Payments made to Sogou Website Alliance members are included in cost of search and others revenues as traffic acquisition costs. We pay Sogou Website Alliance members based on either revenue-sharing arrangements, under which we pay a percentage of pay-for-click revenues generated from clicks by users of their properties, or on a pre-agreed unit price.

Online Game Revenues

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

MMOG operations revenues

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

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

MMOG game operation revenues are collected by Changyou's VIEs through the sale of Changyou's prepaid cards, which it sells in both virtual and physical forms to third-party distributors and players. Proceeds received from sales of prepaid cards are initially recorded as receipts in advance from customers and, upon activation or charge of the prepaid cards, are transferred from receipts in advance from customers to deferred revenues. As Changyou does not have control of, and generally does not know, the ultimate selling price of the prepaid cards sold by distributors, net proceeds from distributors form the basis of revenue recognition. Prepaid cards will expire two years after the date of card production if they have never been activated. The proceeds from the expired game cards are recognized as revenue upon expiration of cards. Once the prepaid cards are activated and credited to a player's personal game account, they will not expire as long as the personal game account remains active. Changyou is entitled to suspend and close a player's personal game account if it has been inactive for a period of 180 consecutive days. The unused balances in an inactive player's personal game account are recognized as revenues when the account is suspended and closed.

Web game revenue

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

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

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

Overseas licensing revenue

Changyou enters into licensing arrangements with third-party operators to operate its MMOGs in other countries and regions. These licensing agreements provide two revenue streams, consisting of an initial license fee and a monthly revenue-based royalty fee based on monthly revenue and sales from ancillary products related to the games. The initial license fees are based on both a fixed amount and additional amounts receivable upon the games' achieving certain sales targets. Since Changyou is obligated to provide post-sales services such as technical support and provision of updates and when-and-if-available upgrades to the licensees during the license period, the initial license fee from the licensing arrangement is recognized as revenue ratably over the license period. The fixed amount of the initial license fee is recognized ratably over the remaining license period from the launch of the game and the additional amount is recognized ratably over the remaining license period from the date when such additional amount is certain. The monthly revenue-based royalty fee is recognized when relevant services are delivered, provided that collectability is reasonably assured.

Others Revenues

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

Revenues from mobile products

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

Revenues from IVAS

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

Revenues from cinema advertisements

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

Share-based Compensation Expense

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

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

Sohu, Changyou, and Sogou Share-based Awards

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

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

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

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

Sohu Video Share-based Awards

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

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

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

7Road Share-based Awards

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

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

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

In the third quarter of 2013, 7Road granted to an additional 48 7Road employees the right to receive an annual cash bonus under Scheme II with the same terms as described above.

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

For Scheme I, incremental compensation expense in the total amount of $5.3 million resulting from the modification will be recognized in the consolidated statements of comprehensive income ratably over the remaining vesting period of the awards for each tranche. For Scheme II, the incremental compensation expense varies depending on 7Road's financial performance.

Changyou Employee Incentive Plans

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

Under two of these three plans, Changyou may pay compensation to employees based on Changyou's profits. Changyou will distribute to eligible employees who participate in the plans up to 5% of Changyou's annual adjusted net profits. Combined, these two plans will distribute up to 10% of Changyou's annual adjusted net profits. Eligible employees will participate in these plans by paying an amount to purchase instruments that will entitle them, while they are employed by Changyou, to receive annual compensation under the plans. After four years of service to Changyou, employees who participate in either of these two plans will be entitled to sell their instruments to other employees at any time during their employment with Changyou at a price negotiated between the two employees, and by doing so would be compensated with the present value of their expected future cash bonuses for the remaining period of the incentive plans. Management concluded that compensation expense associated with these two plans should be accounted for by analogy to deferred compensation arrangements, and that the present value of the amounts forecasted to be distributed under the plans should be amortized over the first four years after the effective date of the plans, before the instruments are first allowed to be transferred to other employees; that the present value of future cash bonuses in the remaining period should be re-measured at each reporting date; that the gain or loss resulting from the re-measurement in the first four years should be amortized over the remaining portion of the four-year period; and that the gain or loss after the four-year period should be booked immediately upon re-measurement at each reporting date after the four-year period. For the three and six months ended June 30, 2014, compensation expense recognized for these two plans was $1.5 million and $2.8 million, respectively.

The third employee incentive plan is structured to allow eligible employees to receive up to 20% of the annual adjusted net profits of projects that they work on. Unlike under the first two plans, certain of the incentive instruments to be issued under this plan will permit participating employees to sell the instruments to other employees at any time during their employment, and certain of the incentive instruments will not permit participating employees to sell their instruments to other employees. Management concluded that compensation expense in the former case should be accounted for by analogy to deferred compensation arrangements, and accordingly should be accrued as of the effective date of the plan at the then present value of the amounts forecasted to be distributed under the plan; that the gain or loss resulting from the re-measurement of the cash bonus in the remaining period of the plan should be booked immediately upon re-measurement; and that compensation expense in the latter case should be recognized when the amount of relevant distributions under these plans is determined and Changyou's obligations are established each year. For the three and six months ended June 30, 2014, compensation expense recognized for this plan was $1.5 million and $26.7 million, respectively.

Taxation

Income Taxes

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

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

PRC Withholding Tax on Dividends

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

PRC Value Added Tax and Business Tax

Effective September 1, 2012, a pilot program (the "Pilot Program") for transition from the imposition of PRC business tax ("Business Tax") to the imposition of VAT for revenues from certain industries was expanded from Shanghai to eight other cities and provinces in China, including Beijing and Tianjin. Commencing August 1, 2013 the Pilot Program was expanded to all regions in the PRC. Our brand advertising and search revenues as well as certain online game revenues were subject to the Pilot Program.

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

We adopted the net presentation method for our brand advertising and search businesses both before and after the implementation of the Pilot Program. We adopted the gross presentation method for revenues of 7Road deemed to be derived from the sale of software both before and after the implementation of the Pilot Program.

U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of 34% or 35%. To the extent that Sohu.com Inc. has U.S. taxable income, we accrue U.S. corporate income tax in our consolidated statements of comprehensive income and make estimated tax payments as and when required by U.S. law.

Uncertain Tax Positions

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

Net Income /(Loss) per Share

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

(1) Changyou's net income /(loss) attributable to the Sohu Group is determined using the percentage that the weighted average number of Changyou shares held by Sohu represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of the Sohu Group's diluted net income /(loss) per share, assuming a dilutive effect, all of Changyou's existing unvested restricted share units, and vested restricted share units that have not yet been settled, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income /(loss) attributable to the Sohu Group on a diluted basis decreased accordingly. Assuming an anti-dilutive effect, all of these Changyou restricted share units are excluded from the calculation of the Sohu Group's diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group's basic net income /(loss) per share.

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

In the calculation of the Sohu Group's diluted net income /(loss) per share, assuming a dilutive effect, the percentage of the Sohu Group's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested share options with the performance targets achieved as well as vested but unexercised share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of the Sohu Group's diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to the Sohu Group on a diluted basis equals the number used for the calculation of the Sohu Group's basic net income /(loss) per share.

Fair Value of Financial Instruments

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

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

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

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

Cash Equivalents

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

Restricted time deposits

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

Changyou loans from offshore banks, secured by time deposits

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

Collateral related to Sogou incentive shares trust arrangements

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

Accounts Receivable, Net

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

Equity Investments

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

Repurchase Options and Put Option for Sogou Series A Preferred Shares

As discussed in “Business Transactions - Sogou Transactions,” in September 2013 Sogou entered into Repurchase Option Agreements with Sohu Search and Photon, and a Repurchase/Put Option Agreement with China Web, with respect to Series A Preferred Shares of Sogou held by them. On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of $47.3 million.

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

China Web’s put option with Sogou was initially recognized in other short-term liabilities in the Sohu Group’s consolidated balance sheets at fair value when the agreement was signed. Subsequent changes in the fair value of the put option were recognized quarterly in other income /(expense) in the Sohu Group’s consolidated statements of comprehensive income. In the first quarter of 2014, while the put option remained outstanding, the changes in the fair value of the put option of $2.3 million were recognized in other income in the Sohu Group’s consolidated statements of comprehensive income. After Sogou’s repurchase of the Series A Preferred Shares from China Web, the other short-term liabilities recognized with respect to China Web were reversed to zero.

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

Long-Lived Assets

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

Fixed Assets

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

Expenditure for maintenance and repairs is expensed as incurred.

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

Intangible Assets

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

Commencing in the third quarter of 2011, we amortize licensed video content over the shorter of the term of the estimated period over which the benefits of the license agreement will be enjoyed, based on the trend in viewership accumulation, or the applicable license period. We update our accounting estimates for amortization of licensed video content costs if there is change in viewership patterns. Any such change in accounting estimates will be applied prospectively. Commencing in the first quarter of 2014, in order to match the current trend in viewership accumulation, we adopted an accelerated amortization pattern for certain of our purchased video content.

Prepaid non-current Assets

Prepaid non-current assets primarily include prepaid PRC income tax arising from the sale of certain assets associated with the 17173 Business by Sohu to Changyou. The prepaid PRC income tax will be amortized over the period of the weighted average remaining life of the 17173 Business-related assets sold to Changyou.

Impairment of Long-lived Assets

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

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and consolidated VIEs. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our financial statements provisional amounts for the items for which the accounting is incomplete. If a measurement period adjustment is identified, we recognize the adjustment as part of the acquisition accounting. We increase or decrease the provisional amounts of identifiable assets or liabilities by means of increases or decreases in goodwill for measurement period adjustments.

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

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

Contingent Consideration

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

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

Mezzanine Equity

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

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

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the noncontrolling shareholders. The acquisition closed on June 5, 2013, and 7Road has been a wholly-owned subsidiary of Changyou since then. As the put option held by the owners of the noncontrolling interest lapsed upon the closing of Changyou's acquisition of their shares in 7Road, there was no associated accretion and no mezzanine equity during and after the third quarter of 2013.

Comprehensive Income

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

Functional Currency and Foreign Currency Translation

Functional Currency

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

Foreign Currency Translation

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

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

RESULTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013

Reclassification of Mobile Business and Mobile Segment

Commencing in the first quarter of 2014, we reclassified the mobile business and mobile segment to the others business and the others segment, respectively, because we did not consider the mobile business to be significant enough to constitute a separate business and the CODM no longer reviewed the mobile business as a separate segment. The mobile business offers mobile-related services through mobile products to mobile phone users through cooperation with China mobile network operators. The mobile products consist primarily of SMS, mobile video, RBT, and IVR. A majority of the content is purchased from third-party content providers. To conform to current period presentations, the relevant amounts for prior periods have been reclassified accordingly. Such reclassifications amounted to $15.3 million and $29.1 million, respectively, for revenues and $9.0 million and $18.2 million, respectively, for costs for the three and six months ended June 30, 2013.

Revenues

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2014		2013		2014 vs 2013	2014		2013		2014 vs 2013
Revenues										
Online advertising:										
Brand advertising	$133,408	34%	$100,191	29%	$ 33,217	$244,511	32%	$180,428	28%	$ 64,083
Search and others	85,064	21%	46,171	14%	38,893	149,373	20%	82,223	13%	67,150
Subtotal of online advertising revenues	218,472	55%	146,362	43%	72,110	393,884	52%	262,651	41%	131,233
Online game	153,877	38%	168,295	50%	(14,418)	317,265	41%	335,716	52%	(18,451)
Others	27,802	7%	24,247	7%	3,555	54,317	7%	48,133	7%	6,184
Total revenues	$400,151	100%	$338,904	100%	$ 61,247	$765,466	100%	$646,500	100%	$118,966

Total revenues were $400.2 million and $765.5 million, respectively, for the three and six months ended June 30, 2014, compared to $338.9 million and $646.5 million, respectively, for the corresponding periods in 2013. The increase in total revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $61.2 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $119.0 million. The increases were mainly attributable to increases in online advertising revenues, which were offset in part by decreases in online game revenues.

Online Advertising Revenues

Online advertising revenues were $218.5 million and $393.9 million, respectively, for the three and six months ended June 30, 2014, compared to $146.4 million and $262.7 million, respectively, for the corresponding periods in 2013. The increase in online advertising revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $72.1 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $131.2 million. The increases were mainly attributable to increases in search and others revenues.

Brand Advertising Revenues

Brand advertising revenues were $133.4 million and $244.5 million, respectively, for the three and six months ended June 30, 2014, compared to $100.2 million and $180.4 million, respectively, for the corresponding periods in 2013. The increase in brand advertising revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $33.2 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $64.1 million. The increases were mainly attributable to increases in revenues from Sohu Video and 17173 advertising businesses.

We expect brand advertising revenues to increase in the third quarter of 2014, compared to the second quarter of 2014.

Search and Others Revenues

Search and others revenues were $85.1 million and $149.4 million, respectively, for the three and six months ended June 30, 2014, compared to $46.2 million and $82.2 million, respectively, for the corresponding periods in 2013. The increase in search and others revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $38.9 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $67.2 million. The increase was mainly due to increased traffic and improved monetization.

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

Online Game Revenues

Online game revenues were $153.9 million and $317.3 million, respectively, for the three and six months ended June 30, 2014, compared to $168.3 million and $335.7 million, respectively, for the corresponding periods in 2013. The decrease in online game revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $14.4 million, and the decrease from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $18.5 million. The decrease was mainly due to decreased revenues from Changyou's Web games Wartune and DDTank in China, and decreased revenues from Changyou's flagship MMOG, TLBB, as fewer players spent in the game in the second quarter of 2014 after Changyou released a new expansion pack that made some of the gameplay easier for players to play.

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

Others Revenues

Revenues for other services were $27.8 million and $54.3 million, respectively, for the three and six months ended June 30, 2014, compared to $24.2 million and $48.1 million, respectively, for the corresponding periods in 2013. The increase in others revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $3.6 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $6.2 million. The increase was mainly due to increased revenues from IVAS and cinema advertising.

Costs and Expenses

Cost of Revenues

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2014		2013		2014 vs 2013	2014		2013		2014 vs 2013
Cost of revenues:										
Online advertising:										
Brand advertising	$ 82,898	49%	$ 51,556	45%	$31,342	$147,038	48%	$ 96,434	44%	$50,604
Search and others	40,420	24%	24,498	22%	15,922	72,157	23%	45,290	21%	26,867
Subtotal of cost of online advertising revenues	123,318	73%	76,054	67%	47,264	219,195	71%	141,724	65%	77,471
Online game	30,263	17%	22,981	20%	7,282	56,849	19%	45,630	21%	11,219
Others	16,305	10%	14,610	13%	1,695	32,340	10%	29,820	14%	2,520
Total cost of revenues	$169,886	100%	$113,645	100%	$56,241	$308,384	100%	$217,174	100%	$91,210

Total cost of revenues was $169.9 million and $308.4 million, respectively, for the three and six months ended June 30, 2014, compared to $113.6 million and $217.2 million, respectively, for the corresponding periods in 2013. The increase in cost of revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $56.2 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $91.2 million. The increase was mainly attributable to increases in cost of online advertising revenues.

Cost of Online Advertising Revenues

Cost of online advertising revenues was $123.3 million and $219.2 million, respectively, for the three and six months ended June 30, 2014, compared to $76.1 million and $141.7 million, respectively, for the corresponding periods in 2013. The increase in cost of online advertising revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $47.3 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $77.5 million. The increase was mainly attributable to increases in cost of brand advertising revenues.

Cost of Brand Advertising Revenues

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

Cost of brand advertising revenues was $82.9 million and $147.0 million, respectively, for the three and six months ended June 30, 2014, compared to $51.6 million and $96.4 million, respectively, for the corresponding periods in 2013.

The increase in cost of brand advertising revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $31.3 million. The increase mainly consisted of a $19.4 million increase in content and license costs, and an $8.9 million increase in bandwidth leasing costs.

The increase in cost of brand advertising revenues from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $50.6 million. The increase mainly consisted of a $27.0 million increase in content and license costs, a $16.4 million increase in bandwidth leasing costs, and a $2.1 million increase in depreciation expenses, and a $2.0 million increase in salary and benefits expenses.

Our brand advertising gross margin was 38% and 40%, respectively, for the three and six months ended June 30, 2014, as compared to 49% and 47%, respectively, for the corresponding periods in 2013. The decrease in our brand advertising gross margin was mainly due to the increase in content and license costs and in bandwidth leasing costs.

Cost of Search and Others Revenues

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

Cost of search and others revenues was $40.4 million and $72.2 million, respectively, for the three and six months ended June 30, 2014, compared to $24.5 million and $45.3 million, respectively, for the corresponding periods in 2013.

The increase in cost of search and others revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $15.9 million. The increase mainly consisted of a $8.8 million increase in traffic acquisition costs, a $3.3 million increase in depreciation expenses, and a $3.1 million increase in bandwidth leasing costs.

The increase in cost of search and others revenues from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $26.9 million. The increase mainly consisted of a $13.3 million increase in traffic acquisition costs, a $6.9 million increase in depreciation expenses, and a $5.7 million increase in bandwidth leasing costs.

Our search and others gross margin was 52% for both the three months and the six months ended June 30, 2014, as compared to 47% and 45%, respectively, for the corresponding periods in 2013. The increase in our search and others gross margin was mainly due to higher revenues from increased traffic and the improved monetization of traffic, as well as traffic acquisition costs constituting a lower percentage of search and others revenues.

Cost of Online Game Revenues

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

Cost of online game revenues was $30.3 million and $56.8 million, respectively, for the three and six months ended June 30, 2014, compared to $23.0 million and $45.6 million, respectively, for the corresponding periods in 2013.

The increase in cost of online game revenues from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $7.3 million. The increase included a $3.3 million increase in salary and benefits expense, a $1.4 million increase in revenue-based royalty payments to game developers, and a $1.0 million increase in Business Tax and VAT arising from transactions between Changyou’s subsidiaries and its VIEs.

The increase in cost of online game revenues from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $11.2 million. The increase included a $3.6 million increase in salary and benefits expense, a $3.2 million increase in revenue-based royalty payments to game developers, and a $1.4 million increase in Business Tax and VAT arising from transactions between Changyou's subsidiaries and its VIEs.

Our online game gross margin was 80% and 82%, respectively, for the three and six months ended June 30, 2014, as compared to 86% for both of the corresponding periods in 2013. The decreases in our online game gross margin were mainly due to an increase in salary and benefits expenses with respect to our game operation staff.

Cost of Revenues for Other Services

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

Cost of revenues for other services was $16.3 million and $32.3 million, respectively, for the three and six months ended June 30, 2014, compared to $14.6 million and $29.8 million, respectively, for the corresponding periods in 2013. The increase in cost of revenues for other services from the three and six months ended June 30, 2013 to the three and six months ended June 30, 2014 was $1.7 million and $2.5 million, respectively. The increases were mainly due to revenue-sharing payments related to the IVAS business.

Operating Expenses

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2014		2013		2014 vs 2013	2014		2013		2014 vs 2013
Operating expenses:										
Product development	$102,218	35%	$ 63,361	39%	$ 38,857	$219,940	37%	$115,180	39%	$104,760
Sales and marketing	136,606	47%	71,678	45%	64,928	278,960	47%	130,401	45%	148,559
General and administrative	53,246	18%	25,772	16%	27,474	88,600	16%	48,361	16%	40,239
Total operating expenses	$292,070	100%	$160,811	100%	$131,259	$587,500	100%	$293,942	100%	$293,558

Total operating expenses were $292.1 million and $587.5 million, respectively, for the three and six months ended June 30, 2014, compared to $160.8 million and $293.9 million, respectively, for the corresponding periods in 2013. The increase in operating expenses from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $131.3 million, and the increase from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $293.6 million. The increase was mainly due to increases in sales and marketing expenses and product development expenses.

Product Development Expenses

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

Product development expenses were $102.2 million and $219.9 million, respectively, for the three and six months ended June 30, 2014, compared to $63.4 million and $115.2 million, respectively, for the corresponding periods in 2013.

The increase in product development expenses from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $38.9 million. The increase mainly consisted of a $20.9 million increase in salary and benefits expenses, which was mainly attributable to increased headcount and increased average compensation, a $6.9 million increase in share-based compensation expense, a $4.0 million increase in content and license expenses, and a $2.2 million increase in compensation expense related to Changyou's three new employee incentive plans.

The increase in product development expenses from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $104.8 million. The increase mainly consisted of a $47.1 million increase in salary and benefits expenses, which was mainly attributable to increased headcount and increased average compensation, a $28.1 million increase in compensation expense related to Changyou's three new employee incentive plans, most of which was recognized in the first quarter of 2014, a $9.2 million increase in share-based compensation expense, a $5.6 million increase in content and license expenses, a $4.0 million increase in depreciation expenses, and a $3.2 million increase in facility expenses.

Sales and Marketing Expenses

Sales and marketing expenses mainly consist of advertising and promotional expenditures, salary and benefits expenses, travel expenses, and facility expenses, as well as share-based compensation expenses.

Sales and marketing expenses were $136.6 million and $279.0 million, respectively, for the three and six months ended June 30, 2014, compared to $71.7 million and $130.4 million, respectively, for the corresponding periods in 2013.

The increase in sales and marketing expenses from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $64.9 million. The increase mainly consisted of a $48.1 million increase in advertising and promotional expenditures, which primarily resulted from Changyou's marketing campaign to advertise and promote its PC-based and mobile-based software applications begun in the latter half of 2013, a $11.8 million increase in salary and benefits expenses, and a $1.9 million increase in share-based compensation expense.

The increase in sales and marketing expenses from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $148.6 million. The increase mainly consisted of a $116.1 million increase in advertising and promotional expenditures, which primarily resulted from Changyou's marketing campaign to advertise and promote its PC-based and mobile-based software applications begun in the latter half of 2013, a $21.8 million increase in salary and benefits expenses, which was mainly attributable to increased headcount and increased average compensation, a $3.6 million increase in travel expenses, and a $2.4 million increase in share-based compensation expense.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, share-based compensation expense, professional service fees, travel expenses, and facility expenses.

General and administrative expenses were $53.2 million and $88.6 million, respectively, for the three and six months ended June 30, 2014, compared to $25.8 million and $48.4 million, respectively, for the corresponding periods in 2013.

The increase in general and administrative expenses from the three months ended June 30, 2013 to the three months ended June 30, 2014 was $27.5 million. The increase mainly consisted of a $15.4 million increase in share-based compensation expense, which was mainly in connection with the repurchase of Sogou Class A Ordinary Shares from our employees in the second quarter of 2014, a $6.2 million increase in salary and benefits expenses, which was mainly attributable to increased headcount and increased average compensation, and a $1.2 million increase in facility expenses.

The increase in general and administrative expenses from the six months ended June 30, 2013 to the six months ended June 30, 2014 was $40.2 million. The increase mainly consisted of a $17.0 million increase in share-based compensation expense, a $14.9 million increase in salary and benefits expenses, which was mainly attributable to increased headcount and increased average compensation, a $2.6 million increase in facility expenses, and a $2.2 million increase in depreciation expenses.

Share-based Compensation Expense

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

For Sohu, Changyou and Sogou, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, share-based compensation expense is recognized by Sogou in the consolidated statements of comprehensive income based on the then-current fair value at each reporting date. For Sohu Video, share-based compensation expense is recognized in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on the reporting dates that occur before the grant date. For Sogou Class A Ordinary Shares repurchased from our employees in the second quarter of 2014, share-based compensation expense is recognized by the Sohu Group in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value at the repurchase date of the Sogou Class A Ordinary Shares that we repurchased. Share-based compensation expense is charged to the shareholders' equity or noncontrolling interest section in the consolidated balance sheets.

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

Share-based compensation expense	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Cost of revenues	$ 1,199	$ 98	$ 985	$ 168
Product development expenses	7,294	408	9,947	758
Sales and marketing expenses	2,111	201	2,814	373
General and administrative expenses	15,962	532	18,060	1,026
	$26,566	$1,239	$31,806	$2,325

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

Share-based compensation expense	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
For Sohu share-based awards	$ 1,277	$ 722	$ 3,905	$1,583
For Changyou share-based awards	459	363	739	572
For Sogou share-based awards (1)	20,603	154	22,935	170
For Sohu Video share-based awards	4,227	0	4,227	0
	$26,566	$1,239	$31,806	$2,325

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

For Sohu share options, as of June 30, 2014 there was no unrecognized compensation expense because the requisite service periods for the remaining share options had ended by the end of 2009. For Sohu restricted share units, as of June 30, 2014 there was $6.3 million of unrecognized compensation expense.

For Changyou share-based awards, as of June 30, 2014, there was $2.7 million of unrecognized compensation expense.

For Sogou share-based awards, as of June 30, 2014, there was $4.5 million of unrecognized compensation expense, which also included the compensation expense for employees who transferred from Tencent with Soso search-related businesses.

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

Operating Profit /(Loss)

For the three and six months ended June 30, 2014, we had operating loss of $61.8 million and $130.4million, respectively, compared to operating profit of $64.4 million and $135.4 million, respectively, for the corresponding periods in 2013. This change was mainly due to Changyou. Changyou incurred operating loss of $7.0 million and $37.0 million, respectively, for the three and six months ended June 30, 2014, compared to operating profit of $93.3 million and $194.9 million, respectively, for the three and six months ended June 30, 2013. Changyou’s operating loss resulted primarily from Changyou’s marketing campaign to advertise and promote its PC-based and mobile-based software applications that was commenced in the latter half of 2013, increased salary and benefits expenses and increased other compensation expenses related to its three new employee incentive plans.

Other Income

Other income was $0.7 million and $4.4 million, respectively, for the three and six months ended June 30, 2014, compared to other income of $1.5 million and $4.1 million, respectively, for the corresponding periods in 2013.

Net Interest Income

Net interest income was $8.8 million and $17.2 million, respectively, for the three and six months ended June 30, 2014, compared to $5.5 million and $12.2 million, respectively, for the corresponding periods in 2013.

Income Tax Benefit /(Expense)

Income tax benefit was $1.7 million and $1.5 million, respectively, for the three and six months ended June 30, 2014, compared to income tax expense of $16.3 million and $36.3 million, respectively, for the corresponding periods in 2013.

The income tax benefit was mainly from an income tax benefit of Changyou of $2.2 million, primarily as a result of recognition of deferred tax assets for a net loss carry forward by its operating entities that were loss-making, partially offset by $0.5 million income tax expense incurred by other businesses of Sohu.

Net Income /(Loss)

For the three and six months ended June 30, 2014, we had net loss of $50.5 million and $106.6 million, respectively, compared to net income of $53.2 million and $111.4 million, respectively, for the corresponding periods in 2013.

Net Income /(Loss) Attributable to Noncontrolling Interest

Net loss attributable to noncontrolling interest was $9.4 million and $14.4 million, respectively, for the three and six months ended June 30, 2014, compared to net income attributable to noncontrolling interest of $24.5 million and $47.6 million, respectively, for the corresponding periods in 2013.

Deemed Dividend to Noncontrolling Sogou Series A Preferred Shareholders

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

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

Net Income /(Loss) Attributable to Sohu.com Inc.

As a result of the foregoing, we had net loss attributable to Sohu.com Inc. of $41.1 million and $119.9 million, respectively, for the three and six months ended June 30, 2014, compared to net income attributable to Sohu.com Inc. of $21.6 million and $46.1 million, respectively, for the corresponding periods in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Resources Analysis

Liquidity Sources and Balance

Our principal sources of liquidity are cash and cash equivalents, as well as the cash flows generated from our operations. Cash equivalents primarily comprise time deposits.

As of June 30, 2014, we had cash and cash equivalents of approximately $1,050 million. In addition, as of June 30, 2014, we had, through Changyou, loans from offshore banks in the principal amount of $257 million. These loans are secured by RMB deposits in onshore branches of those banks in the total amount of $372.1 million which is recognized as restricted time deposits.

As of June 30, 2014, we also had commitments for bandwidth purchases in the amount of $76.3 million, commitments for video content purchases in the amount of $52.2 million, commitments for operating leases in the amount of $45.4 million, commitments for purchases of games developed by third-parties in the amount of $44.8 million, commitments for purchases of cinema advertisement slot rights in the amount of $30.2 million and commitments for other content and service purchases in the amount of $28.0 million.

Significant Cash Related Activities

On July 27, 2013, Changyou's Board of Directors authorized a share repurchase program of up to $100 million of the outstanding ADSs of Changyou over a two-year period from July 27, 2013 to July 26, 2015. During the six months ended June 30, 2014, Changyou did not repurchase any of its ADSs under the share repurchase program.

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

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

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

Cash Generating Ability

Our cash flows were summarized below (in thousands):

	Six Months Ended June 30,	
	2014	2013
Net cash provided by /(used in) operating activities	$ (30,341)	$ 151,726
Net cash provided by /(used in) investing activities	24,854	(294,971)
Net cash provided by /(used in) financing activities	(226,994)	68,462
Effect of exchange rate change on cash and cash equivalents	(4,445)	11,790
Net decrease in cash and cash equivalents	(236,926)	(62,993)
Cash and cash equivalents at beginning of period	1,287,288	833,535
Cash and cash equivalents at end of period	$1,050,362	$ 770,542

Net Cash Provided by /(Used in) Operating Activities

For the six months ended June 30, 2014, $30.3 million net cash used in operating activities was primarily attributable to our net loss of $106.6 million, adjusted by non-cash items of depreciation and amortization of $103.3 million, share-based compensation expense of $14.8 million, and other non-cash items of $2.3 million, offset by a decrease in cash from working capital items of $40.4 million, non-cash item of change in put option fair value of $2.3 million, and income from investments in debt securities of $1.4 million.

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

Net Cash Provided by /(Used in) Investing Activities

For the six months ended June 30, 2014, $24.9 million net cash provided by investing activities was primarily attributable to proceeds received from maturity of debt securities of $82.0 million, withdrawal of restricted time deposits originally used as collateral for Changyou loans from offshore banks of $48.8 million, proceeds from short-term investments of $2.8 million, investment income from investments in debt securities of $1.4 million, and proceeds from other investing activities of $0.3 million, offset by $110.4 million used to acquire fixed assets and intangible assets.

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

Net Cash Provided by /(Used in) Financing Activities

For the six months ended June 30, 2014, $227.0 million net cash used in financing activities was primarily attributable to Changyou's repayment of $153.2 million loans to offshore banks, $47.3 million used in Sogou's repurchase of Series A Preferred Shares of Sogou from China Web, $24.5 million used in Sogou's repurchase of its Class A Ordinary Shares from its noncontrolling shareholders, and $2.8 million used in payment of contingent consideration by Changyou, offset by $0.8 million received from the exercise of share-based awards.

For the six months ended June 30, 2013, $68.5 million net cash provided by financing activities was primarily attributable to $81.0 million of Changyou loans from offshore banks, $5.3 million in proceeds received from early exercise of share-based awards in our majority-owned subsidiary Sogou, $2.1 million received from the exercise of share-based awards, offset by $19.7 million used for contingent consideration paid by Changyou to 7Road's noncontrolling shareholders, and $0.2 million used for other cash payments related to financing activities.

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

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

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

PRC Profit Appropriation, Withholding Tax on Dividends and Regulation of Foreign Currency Exchange

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

The PRC CIT Law generally imposes a 10% withholding tax on dividends distributed by WFOEs to their immediate holding companies outside mainland China, provided that a lower rate may apply under tax treaties between mainland China and other jurisdictions. For example, withholding tax for dividends to a holding company in Hong Kong may, under certain circumstances, be 5% rather than 10%. As of June 30, 2014, we had accrued deferred tax liabilities in the amount of $20.6 million for withholding taxes associated with dividends paid by Changyou's mainland China-based WFOEs to Changyou's Hong Kong subsidiary.

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

PRC Restrictions Related to Our VIE Structure

While generally our VIEs generate revenues and cash, most of our VIEs incurred deficits as a result of significant costs involved in their operations for the three and six months ended June 30, 2014.

Substantially all of Changyou's operations are conducted through its VIEs, which generate most of Changyou's online game revenues. Although Changyou's subsidiaries received or absorbed a majority of the VIEs' profits or losses pursuant to contractual agreements between the VIEs and Changyou's PRC subsidiaries providing for payments to the subsidiaries in return for services provided to the VIEs by the PRC subsidiaries, significant cash balances remained in Changyou's VIEs as of June 30, 2014. As Changyou's VIEs are not owned by Changyou's PRC subsidiaries, the VIEs are not able to make dividend payments to the subsidiaries. Therefore, in order for Sohu.com Inc. or our subsidiaries outside of mainland China to receive any dividends, loans or advances from Changyou's PRC subsidiaries, we will need to rely on these contractual payments made by Changyou's VIEs to Changyou's PRC subsidiaries. Depending on the nature of services provided by Changyou's PRC subsidiaries to their corresponding VIEs, certain of these payments will subject to PRC taxes, including Business Tax and VAT, which will effectively reduce the amount that the PRC subsidiary receives from its corresponding VIE. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

U.S. Corporate Income Tax

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

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

Dividend Policy

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

FOREIGN CURRENCY EXCHANGE RATE RISK

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

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

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

The following table sets forth a summary of our foreign currency sensitive financial instruments as of June 30, 2014, which consisted of cash and cash equivalents, restricted time deposits, accounts receivable, prepaid and other current assets, current liabilities and long-term accounts payable. These financial instruments are recorded at their fair value.

	Denominated in (in thousands)				
	US$	RMB	HK$	Others	Total
Cash and cash equivalents	499,240	547,419	1,079	2,624	1,050,362
Restricted time deposits	9,305	372,058	0	0	381,363
Accounts receivable	2,115	162,407	6	378	164,906
Prepaid and other current assets	2,630	136,548	17	783	139,978
Current liabilities	274,218	654,314	0	803	929,335
Long-term accounts payable	0	5,331	0	0	5,331

INTEREST RATE RISK

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

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

INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 2.3 % in the first half of 2014. While this rate of inflation represents a decline compared to the rate for the corresponding period in 2013, there may be further increased inflation in the future, which could have a material adverse effect on our business.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in the legal proceedings reported in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC on February 28, 2014.

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

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

USE OF PROCEEDS

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

During the six months ended June 30, 2014, Sohu did not use any proceeds from the offering. The remaining net proceeds from the offering have been invested in cash and cash equivalents. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the Exhibits Index attached hereto.

SIGNATURES

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

Dated: August 8, 2014

SOHU.COM INC.

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

Sohu.com Inc.

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

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31.1	Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
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32.1	Section 1350 Certification of Charles Zhang
32.2	Section 1350 Certification of Carol Yu
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013; (iii) Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013; (iv) Condensed Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2014 and 2013; and (v) Notes to Condensed Consolidated Financial Statements, tagged using four different levels of detail.

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: August 8, 2014

/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: August 8, 2014

/s/ Carol Yu

Carol Yu

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 June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2014 and results of operations of the Company for the three months ended June 30, 2014.

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors
August 8, 2014

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 June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carol Yu, Co-President and Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2014 and results of operations of the Company for the three months ended June 30, 2014.

/s/ Carol Yu

Carol Yu, President and Chief Financial Officer
August 8, 2014