
**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, 2010

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-30961

Sohu.com Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

Level 12, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084
People's Republic of China
(011) 8610-6272-6666

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

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

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

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

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

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

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

<u>Class</u>	<u>Outstanding at June 30, 2010</u>
Common stock, \$.001 par value	37,833,065

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, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 599,105	\$ 563,782
Accounts receivable, net	62,014	46,610
Prepaid and other current assets	19,263	10,781
Total current assets	680,382	621,173
Fixed assets, net	119,136	115,088
Goodwill	67,708	55,555
Intangible assets, net	14,073	7,933
Other assets, net	73,242	28,524
Total assets	<u>\$ 954,541</u>	<u>\$ 828,273</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,397	\$ 4,602
Accrued liabilities to suppliers and agents	49,233	41,103
Receipts in advance and deferred revenue	41,780	36,944
Accrued salary and benefits	29,697	28,860
Tax payables	19,997	21,953
Other accrued liabilities	23,436	17,035
Total current liabilities	171,540	150,497
Contingent consideration	1,325	0
Commitments and contingencies		
Total liabilities	<u>172,865</u>	<u>150,497</u>
Shareholders' equity		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 authorized; 37,833 and 37,749 shares issued and outstanding, respectively)	43	43
Additional paid-in capital	325,611	317,052
Treasury stock (5,389 shares)	(114,690)	(114,690)
Accumulated other comprehensive income	23,692	21,502
Retained earnings	449,518	385,874
Total Sohu.com Inc. shareholders' equity	684,174	609,781
Noncontrolling interest	97,502	67,995
Total shareholders' equity	781,676	677,776
Total liabilities and shareholders' equity	<u>\$ 954,541</u>	<u>\$ 828,273</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Advertising:				
Brand advertising	\$ 53,162	\$ 43,621	\$ 92,674	\$ 82,695
Sponsored search	3,891	1,769	6,725	3,331
Subtotal of advertising revenues	57,053	45,390	99,399	86,026
Online game	77,721	66,596	149,793	128,203
Wireless and others	11,323	15,099	26,359	28,594
Total revenues	146,097	127,085	275,551	242,823
Cost of revenues:				
Advertising:				
Brand advertising	22,256	14,065	39,539	27,795
Sponsored search	3,507	2,265	6,420	4,563
Subtotal of cost of advertising revenues	25,763	16,330	45,959	32,358
Online game	7,008	3,937	12,392	7,373
Wireless and others	6,150	8,512	13,396	16,641
Total cost of revenues	38,921	28,779	71,747	56,372
Gross profit	107,176	98,306	203,804	186,451
Operating expenses:				
Product development	16,881	14,637	32,399	27,951
Sales and marketing	29,606	25,810	52,615	42,636
General and administrative	9,384	9,208	19,267	17,102
Amortization of intangible assets	139	128	247	202
Total operating expenses	56,010	49,783	104,528	87,891
Operating profit	51,166	48,523	99,276	98,560
Other (expense) income	(330)	62	(355)	63
Interest income and exchange difference	958	1,274	2,157	2,396
Income before income tax expense	51,794	49,859	101,078	101,019
Income tax expense	6,329	7,969	14,292	14,555
Income from continuing operations	45,465	41,890	86,786	86,464
Gain from discontinued e-commerce operations	0	446	0	446
Net income	45,465	42,336	86,786	86,910
Less: Net income attributable to the noncontrolling interest	12,012	8,801	23,142	8,780
Net income attributable to Sohu.com Inc.	\$ 33,453	\$ 33,535	\$ 63,644	\$ 78,130
Basic net income per share attributable to Sohu.com Inc.	\$ 0.88	\$ 0.88	\$ 1.68	\$ 2.04
Shares used in computing basic net income per share attributable to Sohu.com Inc.	37,822	38,284	37,800	38,223
Diluted net income per share attributable to Sohu.com Inc.	\$ 0.82	\$ 0.79	\$ 1.54	\$ 1.94
Shares used in computing diluted net income per share attributable to Sohu.com Inc.	38,289	39,018	38,366	38,935

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 86,786	\$ 86,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	10,010	7,833
Share-based compensation expense	12,981	8,901
Amortization of intangible assets and other assets	1,139	902
Provision for allowance for doubtful accounts	301	485
(Excess tax benefits) Reversal of excess tax benefits from share-based payment arrangements	(1,155)	678
Others	73	209
Changes in assets and liabilities, net of acquisition:		
Prepaid and other current assets	(6,886)	13,692
Accounts receivable	(14,857)	(16,704)
Tax payables	(2,175)	1,700
Accrued liabilities to suppliers and agents	8,130	1,130
Receipts in advance and deferred revenue	638	(3,126)
Accounts payable	2,795	2,377
Other accrued liabilities	2,756	(1,623)
Net cash provided by operating activities	100,536	103,364
Cash flows from investing activities:		
Purchase of fixed assets	(47,843)	(4,954)
Purchase of intangible and other assets	(4,394)	(137)
Decrease in restricted cash	0	2,671
Acquisitions, net of cash acquired	(13,321)	0
Net cash used in investing activities	(65,558)	(2,420)
Cash flows from financing activities:		
Issuance of common stock	376	3,015
Excess tax benefits (Reversal of excess tax benefits) from share-based payment arrangements	1,155	(678)
Proceeds from Changyou's initial public offering	0	128,340
Other proceeds relating to financing activities	0	1,087
Other payments relating to financing activities	(3,001)	(263)
Net cash (used in) provided by financing activities	(1,470)	131,501
Effect of exchange rate changes on cash and cash equivalents	1,815	(124)
Net increase in cash and cash equivalents	35,323	232,321
Cash and cash equivalents at beginning of period	563,782	314,425
Cash and cash equivalents at end of period	<u>\$599,105</u>	<u>\$546,746</u>

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)
Six Months Ended June 30, 2010
(In thousands)

	Sohu.com Inc. Shareholders' Equity							
	Total	Comprehensive Income	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest
Beginning balance	\$677,776	\$ 0	\$ 43	\$317,052	\$(114,690)	\$ 21,502	\$385,874	\$ 67,995
Issuance of common stock	376	0	0	376	0	0	0	0
Share-based compensation expense	12,981	0	0	7,028	0	0	0	5,953
Excess tax benefits from share-based awards	1,155	0	0	1,155	0	0	0	0
Comprehensive income:								
Net income	86,786	86,786	0	0	0	0	63,644	23,142
Other comprehensive income:								
Foreign currency translation adjustment	2,602	2,602	0	0	0	2,190	0	412
Total other comprehensive income	2,602	2,602						
Total comprehensive income	89,388	89,388						
Comprehensive income attributable to the noncontrolling interest		(23,554)						
Comprehensive income attributable to Sohu.com Inc.		\$ 65,834						
Ending balance	\$781,676		\$ 43	\$325,611	\$(114,690)	\$ 23,692	\$449,518	\$ 97,502

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, 2009
(In thousands)

	Sohu.com Inc. Shareholders' Equity							
	Total	Comprehensive Income	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest
Beginning balance	\$391,094	\$ 0	\$ 43	\$201,196	\$(74,683)	\$ 21,349	\$238,041	\$ 5,148
Issuance of common stock	3,015	0	0	3,015	0	0	0	0
Share-based compensation expense	8,901	0	0	6,260	0	0	0	2,641
Reversal of excess tax benefits from share-based awards	(858)	0	0	(858)	0	0	0	0
Comprehensive income:								
Net income	86,910	86,910	0	0	0	0	78,130	8,780
Other comprehensive income:								
Foreign currency translation adjustment	189	189	0	0	0	12	0	177
Total other comprehensive income	189	189						
Total comprehensive income	87,099	87,099						
Comprehensive income attributable to the noncontrolling interest		(8,957)						
Comprehensive income attributable to Sohu.com Inc.		\$ 78,142						
Recognition of change in Sohu's economic interests in Changyou	125,375		0	100,552	0	0	0	24,823
Ending balance	\$614,626		\$ 43	\$310,165	\$(74,683)	\$ 21,361	\$316,171	\$ 41,569

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

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

1. The Company and Basis of Presentation

Nature of Operations

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

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

On April 7, 2009, Changyou completed its initial public offering on the NASDAQ Global Select Market, trading under the symbol “CYOU.” After Changyou’s offering, Sohu continues to consolidate Changyou in Sohu’s consolidated financial statements, as Sohu is Changyou’s controlling shareholder, but recognizes noncontrolling interest reflecting shares held by shareholders other than Sohu. As of June 30, 2010, 29% of the economic interest in Changyou was recognized as noncontrolling interest in Sohu’s consolidated financial statements. See Note 2 - Changyou Transactions - Sohu’s Shareholding in Changyou.

Basis of Consolidation

The consolidated financial statements include the accounts of Sohu and its wholly-owned and majority-owned subsidiaries and variable interest entities (“VIEs”). VIEs are consolidated if the Company is the primary beneficiary. All intercompany transactions are eliminated.

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

Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the three and six months ended June 30, 2010 are not necessarily indicative of the results expected for the full fiscal year or for any future period. Certain comparative figures have been reclassified to conform to the current presentation.

These financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

2. Changyou Transactions

Share-based Award to Tao Wang, Chief Executive Officer of Changyou

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

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

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

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

In February 2010, 2,000,000 Class B restricted ordinary shares held by Prominence became vested. Upon this vesting, the number of Class B ordinary shares held beneficially by Tao Wang increased to 11,000,000 shares and the number of Class B restricted ordinary shares held beneficially by Tao Wang decreased to 4,000,000 shares. These numbers of Class B ordinary shares and Class B restricted ordinary shares remain unchanged as of June 30, 2010.

Changyou’s 2008 Share Incentive Plan

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

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

Initial Public Offering of Changyou

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

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

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

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

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

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

Sohu's Shareholding in Changyou

Shareholding and Control

Through June 30, 2010, 1,195,000 Class B restricted share units granted to certain of Changyou's executive officers other than Tao Wang and to certain of its employees had become vested, and were settled in Class B ordinary shares and then converted into Class A ordinary shares; and 356,750 Class A restricted share units granted to certain of Changyou's executive officers other than Tao Wang and to certain of its employees had become vested, and were settled in Class A ordinary shares.

As of June 30, 2010, Changyou had outstanding a combined total of 104,051,750 Class A and Class B ordinary shares, consisting of (i) 70,250,000 Class B ordinary shares held by Sohu through Sohu Game; (ii) 15,000,000 Class B ordinary shares held by Tao Wang through Prominence, including 4,000,000 Class B restricted ordinary shares that were not vested; (iii) 17,250,000 Class A ordinary shares issued in Changyou's initial public offering; (iv) 1,195,000 Class A ordinary shares issued to certain of Changyou's executive officers other than Tao Wang and to certain of its employees upon conversion of Class B ordinary shares that had been issued upon the vesting and settlement of Class B restricted share units granted to those employees; and (v) 356,750 Class A ordinary shares issued to certain of Changyou's executive officers other than Tao Wang and to certain of its employees upon the vesting and settlement of Class A restricted share units granted to those employees.

As of June 30, 2010, treating Tao Wang's 4,000,000 Class B restricted ordinary shares as owned by Tao Wang, Sohu held approximately 68% of the combined total of Changyou's outstanding Class A and Class B ordinary shares and controlled approximately 81% of the total voting power in Changyou. As a result, Sohu had the power to elect the entire board of directors of Changyou and determine the outcome of all matters submitted to a shareholder vote. As Changyou's controlling shareholder, Sohu will continue to consolidate Changyou in Sohu's consolidated financial statements but recognize noncontrolling interest reflecting shares held by shareholders other than Sohu, as discussed above in Note 1- The Company and Basis of Presentation - Basis of Consolidation.

Economic Interest

Because Tao Wang's 4,000,000 Class B restricted ordinary shares are subject to forfeiture to Sohu until they become vested, for accounting purposes those shares are treated as owned by Sohu, rather than as owned by Tao Wang, and therefore those shares are not included in the noncontrolling interest line items in Sohu's consolidated financial statements. As a result, as of June 30, 2010, Sohu was treated as holding approximately 71% of the economic interest in Changyou. Accordingly, shareholders other than Sohu were treated as holding the remaining 29% of the economic interest, which was recognized as noncontrolling interest in Sohu's consolidated financial statements, as discussed above in Note 1- The Company and Basis of Presentation - Basis of Consolidation.

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

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Dilutive Impact

Through June 30, 2010, under Changyou's 2008 Share Incentive Plan, Changyou has granted 11,000,000 Class B ordinary shares and 4,000,000 Class B restricted ordinary shares to Tao Wang through Prominence and 4,414,000 Class A and Class B restricted share units (settleable by Changyou's issuance of Class A ordinary shares and Class B ordinary shares, respectively) to its executive officers other than Tao Wang and to certain of its employees. As of June 30, 2010, the number of Changyou's outstanding restricted share units decreased from 4,414,000 to 2,807,500, as a result of forfeitures and vesting and settlement of restricted share units.

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

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

3. Segment Information

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

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

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

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

	Three Months Ended June 30, 2010							
	Segments Other Than Online Game				Segments Other Than Online Game			Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others	Online Game	Online Game	Intercompany Eliminations	
Revenues (1)	\$ 55,676	\$ 3,891	\$ 11,073	\$ 250	\$ 70,890	\$ 77,721	\$ (2,514)	\$ 146,097
Segment cost of revenues	(21,052)	(3,506)	(5,810)	(340)	(30,708)	(6,965)	0	(37,673)
Segment gross profit (loss)	<u>\$ 34,624</u>	<u>\$ 385</u>	<u>\$ 5,263</u>	<u>\$ (90)</u>	40,182	70,756	(2,514)	108,424
SBC (2) in cost of revenues					(1,205)	(43)	0	(1,248)
Gross profit					<u>38,977</u>	<u>70,713</u>	<u>(2,514)</u>	<u>107,176</u>
Operating expenses:								
Product development					(7,932)	(6,731)	0	(14,663)
Sales and marketing (1)					(19,265)	(11,679)	2,514	(28,430)
General and administrative					(3,920)	(3,653)	0	(7,573)
Amortization of intangible assets					(137)	(2)	0	(139)
SBC (2) in operating expenses					(3,268)	(1,937)	0	(5,205)
Total operating expenses					<u>(34,522)</u>	<u>(24,002)</u>	<u>2,514</u>	<u>(56,010)</u>
Operating profit					4,455	46,711	0	51,166
Other (expense) income					(711)	381	0	(330)
Interest income and exchange difference					155	803	0	958
Income tax expense					(525)	(5,804)	0	(6,329)
Income from continuing operations					<u>\$ 3,374</u>	<u>\$ 42,091</u>	<u>\$ 0</u>	<u>\$ 45,465</u>

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

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

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Three Months Ended June 30, 2009

	Segments Other Than Online Game				Segments Other Than Online Game	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues (1)	\$ 49,184	\$ 1,769	\$14,951	\$ 148	\$ 66,052	\$ 66,596	\$ (5,563)	\$ 127,085
Segment cost of revenues (1)	(13,804)	(2,262)	(8,279)	(232)	(24,577)	(3,853)	6	(28,424)
Segment gross profit (loss)	\$ 35,380	\$ (493)	\$ 6,672	\$ (84)	41,475	62,743	(5,557)	98,661
SBC (2) in cost of revenues					(265)	(90)	0	(355)
Gross profit					41,210	62,653	(5,557)	98,306
Operating expenses:								
Product development					(6,818)	(4,520)	0	(11,338)
Sales and marketing (1)					(20,884)	(10,269)	5,557	(25,596)
General and administrative					(3,634)	(2,828)	0	(6,462)
Amortization of intangible assets					(127)	(1)	0	(128)
SBC (2) in operating expenses					(677)	(5,582)	0	(6,259)
Total operating expenses					(32,140)	(23,200)	5,557	(49,783)
Operating profit					9,070	39,453	0	48,523
Dividend income (3)					96,800	0	(96,800)	0
Other income					62	0	0	62
Interest income and exchange difference					403	871	0	1,274
Income tax expense					(2,173)	(5,796)	0	(7,969)
Income from continuing operations					\$ 104,162	\$ 34,528	\$ (96,800)	\$ 41,890

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

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

Note (3): In the second quarter of 2009, Changyou declared a dividend distribution of \$96.8 million to Sohu Game. Both Changyou and Sohu Game are within the Sohu Group.

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Six Months Ended June 30, 2010

	Segments Other Than Online Game				Segments Other Than Online Game	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues (1)	\$ 98,268	\$ 6,725	\$ 24,361	\$ 1,998	\$ 131,352	\$ 149,793	\$ (5,594)	\$ 275,551
Segment cost of revenues	(37,368)	(6,418)	(12,721)	(675)	(57,182)	(12,282)	0	(69,464)
Segment gross profit	<u>\$ 60,900</u>	<u>\$ 307</u>	<u>\$ 11,640</u>	<u>\$ 1,323</u>	74,170	137,511	(5,594)	206,087
SBC (2) in cost of revenues					(2,173)	(110)	0	(2,283)
Gross profit					<u>71,997</u>	<u>137,401</u>	<u>(5,594)</u>	<u>203,804</u>
Operating expenses:								
Product development					(15,578)	(12,158)	0	(27,736)
Sales and marketing (1)					(34,775)	(21,303)	5,594	(50,484)
General and administrative					(8,247)	(7,116)	0	(15,363)
Amortization of intangible assets					(243)	(4)	0	(247)
SBC (2) in operating expenses					(5,858)	(4,840)	0	(10,698)
Total operating expenses					<u>(64,701)</u>	<u>(45,421)</u>	<u>5,594</u>	<u>(104,528)</u>
Operating profit					7,296	91,980	0	99,276
Other (expense) income					(637)	282	0	(355)
Interest income and exchange difference					539	1,618	0	2,157
Income tax expense					(2,209)	(12,083)	0	(14,292)
Income from continuing operations					<u>\$ 4,989</u>	<u>\$ 81,797</u>	<u>\$ 0</u>	<u>\$ 86,786</u>

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

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

Six Months Ended June 30, 2009

	Segments Other Than Online Game				Segments Other Than Online Game	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues (1)	\$ 96,303	\$ 3,331	\$ 28,329	\$ 265	\$ 128,228	\$ 128,203	\$ (13,608)	\$ 242,823
Segment cost of revenues (1)	(27,298)	(4,557)	(15,922)	(718)	(48,495)	(7,286)	11	(55,770)
Segment gross profit (loss)	\$ 69,005	\$ (1,226)	\$ 12,407	\$ (453)	79,733	120,917	(13,597)	187,053
SBC (2) in cost of revenues					(504)	(98)	0	(602)
Gross profit					79,229	120,819	(13,597)	186,451
Operating expenses:								
Product development					(13,459)	(9,919)	0	(23,378)
Sales and marketing (1)					(34,633)	(21,101)	13,597	(42,137)
General and administrative					(7,834)	(6,041)	0	(13,875)
Amortization of intangible assets					(200)	(2)	0	(202)
SBC (2) in operating expenses					(1,879)	(6,420)	0	(8,299)
Total operating expenses					(58,005)	(43,483)	13,597	(87,891)
Operating profit					21,224	77,336	0	98,560
Dividend income (3)					96,800	0	(96,800)	0
Other income (expense)					64	(1)	0	63
Interest income and exchange difference					849	1,547	0	2,396
Income tax expense					(3,705)	(10,850)	0	(14,555)
Income from continuing operations					\$ 115,232	\$ 68,032	\$ (96,800)	\$ 86,464

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

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

Note (3): In the second quarter of 2009, Changyou declared a dividend distribution of \$96.8 million to Sohu Game. Both Changyou and Sohu Game are within the Sohu Group.

As of June 30, 2010

	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Cash and cash equivalents(1)	\$ 304,597	\$ 294,508	\$ 0	\$ 599,105
Accounts receivable, net	59,664	2,350	0	62,014
Fixed assets, net	65,652	53,484	0	119,136
Total assets (2)	572,275	388,223	(5,957)	954,541

Note (1): The cash and cash equivalents are mainly denominated in Renminbi ("RMB") and in U.S. dollars. For a discussion of concentration of risk which the Company is exposed to, please refer to Note 7 - Financial Instruments - Concentration of Risk.

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

	As of December 31, 2009			
	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Cash and cash equivalents (1)	\$ 336,881	\$226,901	\$ 0	\$ 563,782
Accounts receivable, net	43,215	3,395	0	46,610
Fixed assets, net	65,910	49,178	0	115,088
Total assets (2)	544,942	289,391	(6,060)	828,273

Note (1): The cash and cash equivalents are mainly denominated in RMB and in U.S. dollars. For a discussion of concentration of risk which the Company is exposed to, please refer to Note 7 - Financial Instruments - Concentration of Risk.

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

4. Share-Based Compensation Expense

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

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

Share-based compensation expense was recognized in costs and/or expenses for the three and six months ended June 30, 2010 and 2009, respectively, as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cost of revenues	\$ 1,248	\$ 355	\$ 2,283	\$ 602
Product development expenses	2,218	3,299	4,663	4,573
Sales and marketing expenses	1,176	214	2,131	499
General and administrative expenses	1,811	2,746	3,904	3,227
	<u>\$ 6,453</u>	<u>\$ 6,614</u>	<u>\$12,981</u>	<u>\$8,901</u>

There was no capitalized share-based compensation expense for the three and six months ended June 30, 2010 and 2009.

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

<u>Share-based compensation expense</u>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
For share-based awards granted by Sohu.com Inc.	\$ 4,498	\$ 1,000	\$ 8,083	\$ 2,570
For share-based awards granted by Changyou.com Limited	1,955	5,614	4,898	6,331
	<u>\$ 6,453</u>	<u>\$ 6,614</u>	<u>\$12,981</u>	<u>\$8,901</u>

5. Income Taxes

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

The Company did not have any interest or penalty associated with tax positions for the three and six months ended June 30, 2010, nor did the Company have any significant unrecognized uncertain tax position as of June 30, 2010.

PRC Corporate Income Tax

Advertising Business and Wireless Business

Under the previous PRC income tax law, which expired on December 31, 2007, New and High Technology Enterprises (“NHTEs”) located in the Zhongguancun zone of Beijing (“BJ ZGC”) were exempted from income tax for three years beginning with their first year of operations and were entitled to a 50% tax reduction to 7.5% for the subsequent three years and 15% thereafter. The years during which NHTEs enjoy preferential tax rates are known as “tax holidays.”

Effective January 1, 2008, the current PRC Corporate Income Tax Law (the “CIT Law”) imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises but grants preferential tax treatments to NHTEs. Under the CIT Law, NHTEs can enjoy a preferential income tax rate of 15% for three years but need to re-apply after the end of the three-year period. The current CIT Law provides grandfathering treatment allowing NHTEs to continue to enjoy their unexpired tax holidays under the previous PRC income tax law, as long as these NHTEs continue to meet the criteria for NHTEs under the current CIT Law and were (i) qualified as NHTEs under the previous PRC income tax law, and (ii) established before March 16, 2007.

Three China-based subsidiaries, Beijing Sohu New Era Information Technology Co., Ltd. (“Sohu Era”), Beijing Sohu New Media Information Technology Co., Ltd. (“Sohu Media”) and Beijing Sogou Technology Development Co., Ltd. (“Sogou Technology”), qualified as NHTEs during the year ended December 31, 2008. These three companies will reapply for qualification in 2011. Two China-based VIEs, Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”) and Beijing Sogou Information Service Co., Ltd. (“Sogou Information”), qualified as NHTEs during the year ended December 31, 2009. These two companies will reapply for qualification in 2012. For the fiscal years 2009 and 2010, Sohu Era and Sohu Internet were subject to a 15% income tax rate; and Sohu Media, Sogou Technology and Sogou Information enjoyed a 7.5% income tax rate due to their unexpired tax holidays.

Online Game Business

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

In 2008, the China-based subsidiary and the VIE of Changyou, Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”) and Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”), which are the main operating entities of Changyou, qualified as Software Enterprises under the current CIT Law. As a result, for the fiscal years 2009 and 2010, they were subject to a 50% reduction to a tax rate of 12.5%. This preferential tax treatment will expire at the end of fiscal year 2011.

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PRC Withholding Tax on Dividends

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

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

As of June 30, 2010, the Company had not recorded any withholding tax on the retained earnings of its foreign invested enterprises in the PRC, since the Company intends to reinvest its earnings to further expand its business in mainland China, and its foreign invested enterprises do not intend to declare dividends to their immediate foreign holding companies.

Uncertain Tax Positions

Related to PRC Corporate Income Tax

In 2009, the PRC tax bureau communicated to some subsidiaries within the Sohu Group that certain expenses should not be treated as deductible for income tax purposes under the CIT Law, although the current CIT Law is silent in that regard. The Sohu Group had treated such expense as tax deductible in previous periods. This treatment had been communicated to the tax bureau, without the Sohu Group's receiving any objections or challenges with respect to prior PRC income tax filings. Based on the tax bureau's current interpretation, the Sohu Group concluded that it was more likely than not that such expenses would not be allowed by the tax bureau as deductions for income tax purposes. Hence, the Sohu Group recognized income tax expense of \$1.2 million in the second quarter of 2009 as a result of the change in the tax bureau's position. In addition, the Sohu Group will not reverse this treatment unless it receives a written clarification issued by the tax authority that this kind of expense is deductible for income tax purposes. The situation is unchanged as of June 30, 2010.

Since the current CIT Law was put into effect as of January 1, 2008, guidance for this law has been issued continually. In April 2010, the State Administration of Tax ("SAT") issued a circular relating to the implementation of preferential tax treatments for NHTEs. However, to date, the Beijing local-level tax bureau has not implemented this circular and is holding the view that the relevant provisions might not apply to NHTEs in BJ ZGC. Therefore, the Company kept the current practice unchanged. The Company expects more guidance will be issued in the future. Upon the issuance of such guidance, Sohu Group's effective tax rate might increase.

Related to U.S. Corporate Income Tax

The U.S. Congress currently is considering legislation that, if enacted in its current form, would retroactively reinstate certain favorable provisions that expired on January 1, 2010. This legislation was not enacted prior to the issuance of the Company's financial statements for the three and six months ended June 30, 2010. If the expired favorable tax provisions are reinstated retroactively to January 1, 2010, the following amounts will be reversed on the Company's financial statements in the period in which such legislation is enacted. For the three and six months ended June 30, 2010, the Company has recognized a \$0.29 million and a \$0.64 million, respectively, income tax expense in its financial statements, because the above legislation has not been enacted. The accrual of this tax liability would cause a cash payment by the Company to the U.S. taxing authorities of \$0.02 million and \$0.04 million, respectively, based on the utilization of existing U.S. federal net operating losses generated from excess tax deductions related to share-based awards of \$0.27 million and \$0.60 million, respectively, for the three and six months ended June 30, 2010. These excess tax deductions were treated under U.S. GAAP as an increase in shareholders' equity.

6. Commitments and Contingencies

Contractual Obligation

On November 20, 2009, the Company entered into an agreement to purchase an office building to be built in Beijing, which will serve as the Company's headquarters, for a purchase price of approximately \$110 million denominated in RMB. As of June 30, 2010, \$50 million had been paid and was recognized as other assets in the Company's consolidated financial statements. The remaining \$60 million payment will be settled in installments as various stages of the development plan are completed, of which \$11 million is expected to be made during the remainder of 2010. Construction is expected to be completed by the end of 2012.

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

Litigation

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

In March 2008, the Sohu Group was sued by four major record companies, Sony BMG, Warner, Universal and Gold Label, which alleged that the Sohu Group provided music search links and download services that violated copyrights they owned. As of June 30, 2010, the lawsuits with these four record companies were still in process. At this stage, an estimation of the loss cannot be made.

Laws and Regulations

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

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

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

7. Financial Instruments

Fair Value of Financial Instruments

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

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

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

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

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

The Company's cash equivalents, which consist primarily of time deposits, amounted to \$281.6 million and \$308.9 million, respectively, on June 30, 2010 and December 31, 2009, and are classified within Level 2. This is because these financial instruments are valued using pricing sources and models utilizing market observable inputs.

Concentration of Risk

Financial instruments that potentially subject the Company to concentrations of risk consist primarily of cash and cash equivalents. Cash and cash equivalents in Sohu Group are mainly denominated in RMB and in U.S. dollars. The Company may experience economic losses and negative impacts on earnings and equity as a result of exchange rate fluctuations between the U.S. dollar and the RMB. Moreover, the Chinese government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Company may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency.

8. Variable Interest Entities

To satisfy PRC laws and regulations, the Company conducts certain business in the PRC through its VIEs. The Company consolidates all of its wholly-owned and majority-owned VIEs, of which the Company is the primary beneficiary, in its consolidated financial statements. For the VIE where the Company is not the primary beneficiary, it is not consolidated in the Company's consolidated financial statements.

Consolidated VIEs within the Sohu Group:

The consolidated VIEs are directly or indirectly owned by Dr. Charles Zhang ("Dr. Zhang"), the Company's Chairman, Chief Executive Officer and a major shareholder, and certain executive officer and employees of the Sohu Group. Capital for these VIEs was funded by the Sohu Group through loans provided to Dr. Zhang and those executive officer 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. Zhang and those executive officer and employees of the Sohu Group who are shareholders of the VIEs are required to transfer their ownership in these entities to the Sohu Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Sohu Group at any time to repay the loans outstanding. All voting rights of the VIEs are assigned to the Sohu Group, and the Sohu Group has the right to designate all directors and senior management personnel of the VIEs, also has the obligation to absorb losses of the VIEs. Dr. Zhang and those executive officer and employees of the Sohu Group who are shareholders of the VIEs have pledged their shares in the VIEs as collateral for the loans. As of June 30, 2010, the aggregate amount of these loans was \$11.9 million.

As of June 30, 2010, the total assets for the consolidated VIEs were \$17.0 million, mainly comprising cash and cash equivalents, accounts receivable and fixed assets. As of June 30, 2010, the total liabilities for the consolidated VIEs were \$5.7 million, mainly comprising accrued salary and benefits and tax payables. These balances are reflected in Sohu's consolidated financial statements with intercompany transactions eliminated.

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

For Advertising Business

Brand Advertising Business

a) Sohu Entertainment

Beijing Sohu Entertainment Culture Media Co., Ltd. ("Sohu Entertainment") was incorporated in the PRC in 2002 and is engaged in entertainment and advertising business in the PRC. As of June 30, 2010, the registered capital of Sohu Entertainment was \$1.2 million. Xin Wang (Belinda Wang), the Company's Co-President and Chief Operating Officer, and another employee of the Sohu Group, hold 80% and 20% interests, respectively, in this entity.

b) Feng Yang Tian Lang

Beijing Feng Yang Tian Lang Advertising Co., Ltd. ("Feng Yang Tian Lang") was incorporated in the PRC in 2005 and is engaged in advertising services in the PRC. As of June 30, 2010, the registered capital of Feng Yang Tian Lang was \$0.2 million. Sohu Internet and Beijing Century High Tech Investment Co., Ltd. ("High Century") each holds a 50% interest in this entity.

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c) Donglin

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

Sponsored Search Business

d) Tu Xing Tian Xia

Beijing Tu Xing Tian Xia Information Consultancy Co., Ltd. (“Tu Xing Tian Xia”) was incorporated in the PRC in 1999 and is engaged in mapping services in the PRC. As of June 30, 2010, the registered capital of Tu Xing Tian Xia was \$0.2 million. High Century and Sohu Internet hold 56.1% and 43.9% interests, respectively, in this entity.

e) Sogou Information

Sogou Information was incorporated in the PRC in 2005 and is engaged in providing Internet information services in the PRC. As of June 30, 2010, the registered capital of Sogou Information was \$2.5 million. Each of two employees of the Sohu Group holds a 50% interest in this entity.

For Online Game Business

f) Gamease

Gamease was incorporated in the PRC in August 2007. Gamease’s primary beneficiary is AmazGame, which is an indirect subsidiary of Changyou and Sohu. As of June 30, 2010, the registered capital of Gamease was \$1.3 million. Tao Wang, Chief Executive Officer of Changyou, and a Changyou employee hold 60% and 40% interests, respectively, in this entity.

g) Shanghai ICE

Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”) was incorporated in the PRC in April 2005. Shanghai ICE’s primary beneficiary is ICE Information Technology (Shanghai) Co., Ltd. (“ICE WFOE”), which is an indirect subsidiary of Changyou and Sohu. Shanghai ICE and ICE WFOE were acquired by Changyou in May 2010. As of June 30, 2010, the registered capital of Shanghai ICE was \$1.2 million.

For Wireless and Others Businesses

h) Sohu Internet

Sohu Internet was incorporated in the PRC in 2003 and is engaged in Internet information, wireless and advertising services in the PRC. As of June 30, 2010, the registered capital of Sohu Internet was \$2.4 million. High Century and Sohu Entertainment hold 75% and 25% interests, respectively, in this entity.

i) GoodFeel

Beijing GoodFeel Information Technology Co., Ltd. (“GoodFeel”) was incorporated in the PRC in 2001 and is engaged in value-added telecommunication services in the PRC. As of June 30, 2010, the registered capital of GoodFeel was \$1.2 million. Two employees of the Sohu Group, hold 58.1% and 41.9% interests, respectively, in this entity.

j) High Century

High Century was incorporated in the PRC in 2001 and is engaged in investment holding in the PRC. As of June 30, 2010, the registered capital of High Century was \$4.6 million. Dr. Zhang and another employee of the Sohu Group, hold 80% and 20% interests, respectively, in this entity.

k) 21 East Beijing

Beijing 21 East Culture Development Co., Ltd. (“21 East Beijing”) was acquired in October 2006. As of June 30, 2010, the registered capital of 21 East Beijing was \$0.1 million. High Century holds a 70% interest in this entity.

l) New 21 East

New 21 East Art Development (Beijing) Co., Ltd. (“New 21 East”) was incorporated in December 2007. As of June 30, 2010, the registered capital of New 21 East is \$1.4 million. High Century holds a 70% interest in this entity.

VIE Not Consolidated within the Sohu Group:

In the second quarter of 2010, in order to diversify Changyou's marketing channels for its games and also as a strategic investment, Changyou acquired a 50% equity interest in a company. Although this is a VIE, as Changyou is not able to direct the activities of the VIE, Changyou is not the primary beneficiary, and therefore does not consolidate the company. The investment is being accounted for under the equity method of accounting. As of June 30, 2010, Changyou's maximum exposure to loss as a result of its involvement with the investee is \$9.0 million, which includes Changyou's original investment of \$4.1 million and funds support for its working capital needs recognized as prepaid and other current assets in the Company's consolidated financial statements amounting to \$4.9 million.

9. Sohu.com Inc. Shareholders' Equity

(a) Stockholder Rights Plan

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

(b) Treasury Stock

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

For the three and six months ended June 30, 2010 and 2009, Sohu did not purchase any shares of its common stock.

(c) Stock Incentive Plan

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

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. 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.

For the three and six months ended June 30, 2010, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$4.5 million and \$8.1 million, respectively. For the three and six months ended June 30, 2009, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$1.0 million and \$2.6 million, respectively.

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i) Summary of share option activity

A summary of share options activity under the Sohu 2000 Stock Incentive Plan as of and for the six months ended June 30, 2010 is presented below:

<u>Options</u>	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (1) (in thousands)</u>
Outstanding at January 1, 2010	555	\$ 16.55	4.54	\$ 22,625
Exercised	(24)	15.67		
Forfeited or expired	0			
Outstanding at June 30, 2010	<u>531</u>	16.59	4.07	13,021
Vested at June 30, 2010	<u>531</u>	16.59	4.07	13,021
Exercisable at June 30, 2010	<u>531</u>	16.59	4.07	13,021

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sohu's closing stock price of \$41.09 on June 30, 2010 and the exercise price of share options. The total intrinsic value of share options exercised for the six months ended June 30, 2010 was \$0.9 million.

For the three and six months ended June 30, 2010, 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, 2009, total share-based compensation expense recognized for share options was \$55,000 and \$0.6 million, respectively.

For the three and six months ended June 30, 2010, 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, 2009, total cash received from the exercise of share options amounted to \$1.2 million and \$3.0 million, respectively.

ii) Summary of restricted share unit activity

A summary of restricted share units activity under the Sohu 2000 Stock Incentive Plan as of and for the six months ended June 30, 2010 is presented below:

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	209	\$ 33.41
Granted	731	61.23
Vested	(47)	36.08
Forfeited	(49)	56.53
Unvested at June 30, 2010	<u>844</u>	56.00
Expected to vest thereafter	<u>628</u>	55.60

For the three and six months ended June 30, 2010, total share-based compensation expense recognized for restricted share units was \$4.5 million and \$8.1 million, respectively. For the three and six months ended June 30, 2009, total share-based compensation expense recognized for restricted share units was \$0.9 million and \$2.0 million, respectively.

As of June 30, 2010, there was \$24.7 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 1.2 years.

Sohu's 2010 Stock Incentive Plan

On July 2, 2010, the Company's shareholders approved Sohu's 2010 Stock Incentive Plan (the "Sohu 2010 Stock Incentive Plan"), which provides for the issuance of up to 1,500,000 shares of common stock, including those issued pursuant to the vesting and settlement of restricted share units and pursuant to the exercise of share options. The maximum term of any issued stock right under the Sohu 2010 Stock Incentive Plan is ten years from the grant date. The Sohu 2010 Stock Incentive Plan will expire on July 1, 2020. As of the date of this report, no stock rights had been issued under the Sohu 2010 Stock Incentive Plan.

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2) *Changyou.com Limited Share-based Awards*

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

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

Through June 30, 2010, Changyou has granted under the Changyou 2008 Share Incentive Plan 11,000,000 Class B ordinary shares and 4,000,000 Class B restricted ordinary shares to Tao Wang through Prominence and 4,414,000 Class A and Class B restricted share units (setttable by Changyou's issuance of Class A ordinary shares and Class B ordinary shares, respectively) to its executive officers other than Tao Wang and to certain of its employees.

For the three and six months ended June 30, 2010, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$2.0 million and \$4.9 million, respectively. For the three and six months ended June 30, 2009, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$5.6 million and \$6.3 million, respectively.

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

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

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

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

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

For the 800,000 restricted ordinary shares, as a result of the modification of their vesting terms in April 2008, the portion of the Incremental Fair Value related to these shares, equal to \$7.0 million, was determined in April 2008, and was accounted for as share-based compensation expense over the vesting period starting from the date of the modification, following the accelerated basis of attribution. A summary of activity for these restricted ordinary shares as of and for the six months ended June 30, 2010 is presented below. The shares and their fair value presented in the following table have been revised on a retroactive basis to give effect to the ten-for-one share split.

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<u>Class B Restricted Ordinary Shares</u>	<u>Number of Shares (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	6,000	\$ 1.36
Granted	0	
Vested	(2,000)	1.36
Unvested at June 30, 2010	4,000	1.36
Expected to vest thereafter	4,000	1.36

For the three and six months ended June 30, 2010, share-based compensation expense recognized for the above 8,000,000 Class B restricted ordinary shares was \$0.3 million and \$0.6 million, respectively. For the three and six months ended June 30, 2009, share-based compensation expense recognized for the above 8,000,000 Class B restricted ordinary shares was \$0.5 million and \$1.2 million, respectively.

As of June 30, 2010, there was \$1.1 million of unrecognized compensation expense related to the unvested Class B restricted ordinary shares.

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

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

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

On January 15, 2009, Changyou issued 180,000 Class B restricted ordinary shares to executive officers other than Tao Wang and granted 94,000 Class B restricted share units to certain key employees, the grant of which had been approved and communicated in April 2008 as described above.

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

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

A summary of activity for the above Class B restricted share units as of and for the six months ended June 30, 2010 is presented below. The shares and their fair values presented in the following table have been revised on a retroactive basis to give effect to the ten-for-one share split.

<u>Class B Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	2,055	\$ 1.98
Granted	0	
Vested	(685)	1.98
Forfeited	0	
Unvested at June 30, 2010	1,370	1.98
Expected to vest thereafter	1,370	1.98

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For the three and six months ended June 30, 2010, total share-based compensation expense recognized for the above 2,740,000 Class B restricted share units was \$0.2 million and \$0.5 million, respectively. For both the three months and the six months ended June 30, 2009, total share-based compensation expense recognized for the above 2,740,000 Class B restricted share units was \$3.0 million, including \$2.4 million generated before, but not recognized until after, the completion of Changyou's initial public offering because initial vesting was conditioned upon completion of the offering.

As of June 30, 2010, there was \$0.9 million of unrecognized share-based compensation expense related to the unvested Class B restricted share units.

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

iii) Share-based Awards to Other Employees

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

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

A summary of activity for the Class A restricted share units as of and for the six months ended June 30, 2010 is presented below. The shares and fair value presented in the following form have been revised on a retroactive basis to give effect to the ten-for-one share split.

<u>Class A Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	432	\$ 8.00
Granted	0	
Vested	(108)	8.00
Forfeited	(31)	8.00
Unvested at June 30, 2010	<u>293</u>	8.00
Expected to vest thereafter	<u>264</u>	8.00

For the three and six months ended June 30, 2010, total share-based compensation expense recognized for the above 456,000 Class A restricted share units was \$0.2 million and \$0.6 million, respectively. For both the three months and the six months ended June 30, 2009, total share-based compensation expense recognized for the above 456,000 Class A restricted share units was \$0.6 million, including \$0.2 million generated before, but not recognized until after, the completion of Changyou's initial public offering because initial vesting was conditioned upon completion of the offering.

As of June 30, 2010, there was \$1.3 million of unrecognized share-based compensation expense related to the unvested Class A restricted share units.

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

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

As of June 30, 2010, Changyou had granted an aggregate of 1,218,000 Class A restricted share units (setttable in Class A ordinary shares) to executive officers other than Tao Wang and to certain of its employees. These Class A restricted share units are subject to vesting over a four-year period commencing on their grant dates. A summary of activity for the Class A restricted share units as of and for the six months ended June 30, 2010 is presented below.

<u>Class A Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	1,200	\$ 12.41
Granted	18	16.91
Vested	(300)	12.41
Forfeited	0	
Unvested at June 30, 2010	<u>918</u>	<u>12.50</u>
Expected to vest thereafter	<u>916</u>	<u>12.49</u>

For the three and six months ended June 30, 2010, total share-based compensation expense recognized for the above 1,218,000 Class A restricted share units was \$1.3 million and \$3.2 million, respectively. For both the three and the six months ended June 30, 2009, total share-based compensation expense recognized for the above 1,218,000 Class A restricted share units was \$1.5 million.

As of June 30, 2010, there was \$6.6 million of unrecognized compensation expense related to the unvested Class A restricted share units.

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

10. Noncontrolling Interest

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

The Company's majority-owned subsidiaries and VIEs which are consolidated in Sohu's consolidated financial statements but with noncontrolling interest recognized are Changyou and 21 East Beijing and New 21 East (collectively "21 East"). As of June 30, 2010, Sohu held 71% of the economic interest in Changyou and 70% of the economic interest in 21 East.

Noncontrolling Interest in the Consolidated Balance Sheets

As of June 30, 2010 and December 31, 2009, noncontrolling interest in the consolidated balance sheets was \$97.5 million and \$68.0 million, respectively.

	<u>As of</u>	
	<u>June 30, 2010 (in thousands)</u>	<u>December 31, 2009 (in thousands)</u>
Changyou	\$ 97,249	\$ 67,691
21 East	253	304
Total	<u>\$ 97,502</u>	<u>\$ 67,995</u>

As of June 30, 2010 and December 31, 2009, \$97.2 million and \$67.7 million, respectively, noncontrolling interest was recognized in Sohu's consolidated balance sheets, representing a 29% and a 26%, respectively, economic interest in Changyou's net assets and reflected the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest, as discussed above in Note 1- The Company and Basis of Presentation - Basis of Consolidation.

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Noncontrolling Interest in the Consolidated Statements of Operations

For the three and six months ended June 30, 2010, noncontrolling interest in the consolidated statements of operations was \$12.0 million and \$23.1 million, compared with \$8.8 million for both the three and the six months ended June 30, 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Changyou	\$ 12,038	\$ 8,839	\$23,195	\$8,839
21 East	(26)	(38)	(53)	(59)
Total	<u>\$ 12,012</u>	<u>\$ 8,801</u>	<u>\$23,142</u>	<u>\$8,780</u>

For the three months ended June 30, 2010 and 2009, \$12.0 million and \$8.8 million, respectively, noncontrolling interest was recognized in Sohu's consolidated statements of operations, representing a 29% and a 26%, respectively, economic interest in Changyou attributable to shareholders other than Sohu.

11. Net Income per Share

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

- (a) the percentage of the total economic interest in Changyou held by Sohu, which was 71% for the second quarter of 2010, and
- (b) the percentage of the weighted average number of Changyou shares held by Sohu to the weighted average number of Changyou ordinary shares and shares issuable upon the exercise of share-based awards under the treasury stock method, which was 66% for the second quarter of 2010.

The percentage of 66% was calculated by treating all of Changyou's existing unvested restricted shares as vested, and all unvested restricted share units and vested restricted share units that have not yet been settled as vested and settled by Changyou. Hence, Changyou's share number increases from the basic basis to the fully diluted basis, causing the percentage of weighted average number of shares held by Sohu in Changyou, to decrease from 71% to 66%. As a result, Changyou's net income attributable to Sohu decreased accordingly. This impact is presented as "incremental dilution from Changyou" in the table below.

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

	Three Months Ended		Six Months Ended	
	June 30,	2009	2010	2009
Numerator:				
Net income from continuing operations attributable to Sohu.com Inc.	\$33,453	\$33,089	\$63,644	\$77,684
Gain from discontinued e-commerce operations attributable to Sohu.com Inc.	0	446	0	446
Net income attributable to Sohu.com Inc., basic	33,453	33,535	63,644	78,130
Effect of dilutive securities:				
Incremental dilution from Changyou	(2,188)	(2,659)	(4,452)	(2,659)
Net income attributable to Sohu.com Inc., diluted	<u>\$31,265</u>	<u>\$30,876</u>	<u>\$59,192</u>	<u>\$75,471</u>
Denominator:				
Weighted average basic common shares outstanding	37,822	38,284	37,800	38,223
Effect of dilutive securities:				
Share options and restricted share units	467	734	566	712
Weighted average diluted common shares outstanding	<u>38,289</u>	<u>39,018</u>	<u>38,366</u>	<u>38,935</u>
Basic net income per share attributable to Sohu.com Inc.				
- Continuing operations	\$ 0.88	\$ 0.87	\$ 1.68	\$ 2.03
- Discontinued e-commerce operations	0.00	0.01	0.00	0.01
Basic net income per share attributable to Sohu.com Inc.	<u>\$ 0.88</u>	<u>\$ 0.88</u>	<u>\$ 1.68</u>	<u>\$ 2.04</u>
Diluted net income per share attributable to Sohu.com Inc.				
- Continuing operations	\$ 0.82	\$ 0.78	\$ 1.54	\$ 1.93
- Discontinued e-commerce operations	0.00	0.01	0.00	0.01
Diluted net income per share attributable to Sohu.com Inc.	<u>\$ 0.82</u>	<u>\$ 0.79</u>	<u>\$ 1.54</u>	<u>\$ 1.94</u>

12. Subsequent Events

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

13. Recently Issued Accounting Pronouncements

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

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

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

OVERVIEW

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

Our Business

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

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

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Advertising Business

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

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

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

Online Game Business

Our online game business is conducted through Sohu's majority-owned subsidiary Changyou. Changyou is a leading online game developer and operator in China as measured by the popularity of one of its games, Tian Long Ba Bu ("TLBB"). TLBB, which was launched in May 2007, was ranked by International Data Corporation ("IDC") in 2008 as the fourth most popular online game overall in China and the second most popular online game in China among locally-developed online games. Changyou engages in the development, operation and licensing of MMORPGs, which are interactive online games that may be played simultaneously by hundreds of thousands of game players. Changyou currently operates five MMORPGs, in-house developed TLBB, and licensed Blade Online ("BO"), Blade Hero 2 ("BH 2"), Da Hua Shui Hu ("DHS") and Zhong Hua Ying Xiong ("ZHYX") from third parties. As of June 30, 2010, these games had approximately 98.2 million aggregate registered accounts. For the three months ended June 30, 2010, these games had approximately 2.8 million aggregate active paying accounts, average revenue per active paying account of Renminbi ("RMB")184, 1.3 million aggregate peak concurrent users ("PCU") for Changyou's games under the previous method and aggregate PCU of 1.1 million determined under a method newly-adopted by Changyou. Under the previous method, aggregate PCU for a quarter was determined by adding up the separate PCUs for each of Changyou's games for the quarter. Under the new method, the aggregate PCU reported by Changyou for its games will be the highest aggregate PCU of the games for a day that occurs during the quarter. Going forward, Changyou plans to only report aggregate PCU for Changyou's games determined under the new method.

Changyou has a diversified pipeline of games with various graphic styles, themes and features to appeal to different segments of the online game player community, including Duke of Mount Deer ("DMD"), which we are developing in-house, Immortal Faith ("IF") and the Legend of Ancient World ("LAW"), both of which we licensed from third parties.

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

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

Agreements between Sohu and Changyou

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

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Wireless and Others Businesses

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

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

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

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. For barter transaction involving advertising services, we recognize revenue and expense at fair value only if the fair value of the advertising services surrendered/received in the transaction is determinable. No revenue from advertising-for-advertising barter transaction is recognized since the fair value cannot be reliably determined.

Advertising Revenues

Advertising revenues include revenues from brand advertising services and sponsored search services. Advertising revenue is recognized after deducting agent rebates and applicable business tax. The recognition of advertising revenue involves certain management judgments. The amount and timing of our advertising revenues could be materially different for any period if management made different judgments or utilized different estimates.

Brand Advertising Revenues

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

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

Sponsorship services, which is a type of brand advertising service, is similar to other brand advertising services, but generally involves larger amounts and longer contract periods. Sponsorship services may allow advertisers to sponsor a particular area on our Websites, and may include brand affiliation services and/or a larger volume of services, and may require some exclusivity or premier placements. Sponsorship services advertisement revenues are normally recognized on a straight-line basis over the contract period, provided our obligations under the contract have been met and all revenue recognition criteria have been met.

Sponsored Search Revenues

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

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Revenue for priority placement services is normally recognized on a straight-line basis over the contract period, provided our obligations under the contract have been met and all revenue recognition criteria have been met. Revenue for pay-for-click services is recognized on a per click basis when the users click on the displayed links. The priority of the display of text-based links is based on the bidding price of different advertisers.

Online Game Revenues

Game Operation Revenues

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

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

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

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

Overseas Licensing Revenues

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

Wireless and Others Revenues

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

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

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Wireless service fees are charged on a monthly or per message/download basis. Due to technical issues with the operator's network, we might be unable to collect certain wireless service fees from an operator in certain circumstances. This un-collectability is referred to as the "failure rate," which can vary from operator to operator. Wireless revenues are recognized in the month in which the service is performed, provided that no significant obligations remain. To recognize wireless revenue, we rely on China mobile network operators to provide us billing confirmations for the actual amount of services they have billed to their mobile customers. At the end of each reporting period, when an operator has not yet provided us monthly billing confirmations for the period, we use information generated from our internal system as well as historical data to estimate the failure rate, to estimate the amount of collectable wireless service fees and to recognize revenue. When we later receive the actual billing confirmation, we then record a true-up accounting adjustment. Although we believe we have the ability to make reasonable estimates, differences between the actual facts and our estimates may result in significant fluctuations in the amount and timing of the revenue recognized. Since 2002 when wireless revenues began representing a significant portion of our total revenues, the quarterly historical differences in our estimated revenue which was recorded in the financial statements compared to the actual revenue have ranged from an underestimation of \$1,419,000 (gross margin underestimate of \$654,000) to an overestimation of \$340,000 (gross margin overestimate of \$171,000). For the three months ended June 30, 2010, 64% of our estimated wireless revenues were confirmed by the monthly billing confirmations received from the mobile network operators. Generally, (i) within 15 to 120 days after the end of each month, we receive billing confirmations from each of the operators confirming the amount of wireless service charges billed to that operator's mobile phone users and (ii) within 30 to 180 days after delivering billing confirmations, each operator remits the wireless service fees, net of its service fees, for the month to us.

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

Share-based Compensation Expense

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

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

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

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

The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions are used, our share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us for accounting purposes.

Income Taxes and Uncertain Tax Positions

Income Taxes

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred income taxes are determined based on the differences between the financial reporting and tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Deferred tax assets are reduced by a valuation allowance if, based on available evidence, it is considered that it is more likely than not that some portion of or all of the deferred tax assets will not be realized. In making such determination, we consider factors including (i) future reversals of existing taxable temporary differences, (ii) future profitability, and (iii) tax planning strategies.

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

Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities.

Uncertain Tax Positions

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

Noncontrolling Interest

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

Net Income per Share

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

- (a) the percentage of the total economic interest in Changyou held by Sohu, and
- (b) the percentage of the weighted average number of Changyou shares held by Sohu to the weighted average number of Changyou ordinary shares and shares issuable upon the exercise of share-based awards under the treasury stock method.

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Allowance for Doubtful Accounts Receivable

Our management makes estimates of the collectability of our accounts receivable. In estimating the general allowance, many factors are considered, including but not limited to reviewing delinquent accounts receivable, performing aging analyses and customer credit analyses, and analyzing historical bad debt records and current economic trends. Additional allowance for specific doubtful accounts might be made if the financial conditions of our customers or mobile network operators deteriorate or the mobile network operators are unable to collect fees from their end customers, resulting in their inability to make payments due to us.

Fair Value of Financial Instruments

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

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

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

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

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

VIE Consolidation

VIEs are consolidated if we determine that we are the primary beneficiary. The primary beneficiary is the entity that has both (i) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, and (ii) the obligation to absorb losses of the VIE that could potentially be significant to the VIE.

Long-Lived Assets

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

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

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

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

Management's judgment is required in the assessment of the useful lives of long-lived assets, and is required in the measurement of impairment. Based on the existence of one or more indicators of impairment, we measure any impairment of long-lived assets using the projected discounted cash flow method. The estimation of future cash flows requires significant management judgment based on our historical results and anticipated results and is subject to many factors. The discount rate that is commensurate with the risk inherent in our business model is determined by our management. An impairment charge would be recorded if we determined that the carrying value of long-lived assets may not be recoverable. The impairment to be recognized is measured by the amount by which the carrying values of the assets exceed the fair value of the assets.

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

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Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and VIEs. Goodwill is not depreciated or amortized but is tested for impairment at the reporting unit level (business segment) on an annual basis, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of goodwill with its carrying value. Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. Any impairment losses recorded in the future could have a material adverse impact on our financial condition and results of operations.

Functional Currency and Foreign Currency Translation

Functional Currency

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

Foreign Currency Translation

Assets and liabilities of our China-based subsidiaries and VIEs are translated into U.S. dollars, our reporting currency, at the exchange rate in effect at the balance 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.

RESULTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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,						
	2010		2009	2010 vs 2009	2010		2009	2010 vs 2009		
Revenues										
Advertising:										
Brand advertising	\$ 53,162	36%	43,621	34%	\$ 9,541	\$ 92,674	34%	\$ 82,695	34%	\$ 9,979
Sponsored search	3,891	3%	1,769	2%	2,122	6,725	2%	3,331	1%	3,394
Subtotal of advertising revenues	57,053		45,390		11,663	99,399		86,026		13,373
Online game	77,721	53%	66,596	52%	11,125	149,793	54%	128,203	53%	21,590
Wireless and others	11,323	8%	15,099	12%	(3,776)	26,359	10%	28,594	12%	(2,235)
Total revenues	\$146,097	100%	\$127,085	100%	\$ 19,012	\$275,551	100%	\$242,823	100%	\$ 32,728

Total revenues were \$146.1 million and \$275.6 million, respectively, for the three and six months ended June 30, 2010, as compared to \$127.1 million and \$242.8 million, respectively, for the corresponding periods in 2009. The increase in total revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$19.0 million, and the increase from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$32.7 million. The increase was mainly attributable to online game revenues and brand advertising revenues.

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Advertising Revenues

Advertising revenues were \$57.1 million and \$99.4 million, respectively, for the three and six months ended June 30, 2010, as compared to \$45.4 million and \$86.0 million, respectively, for the corresponding periods in 2009. The increase in advertising revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$11.7 million, and the increase from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$13.4 million. The increase was mainly attributable to brand advertising revenues.

Brand Advertising Revenues

Brand advertising revenues were \$53.2 million and \$92.7 million, respectively, for the three and six months ended June 30, 2010, respectively, compared to \$43.6 million and \$82.7 million, respectively, for the corresponding periods in 2009. The increase in brand advertising revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$9.6 million, and from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$10.0 million. The increase was mainly attributable to the increased advertising during the 2010 FIFA World Cup and our customers' reception of our enhanced video content.

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

Sponsored Search Revenues

Sponsored search services primarily include priority placements in our search directory and pay-for-click services. Revenues from pay-for-click services accounted for approximately 80% and 78%, respectively, of the total sponsored search revenues for the three and six months ended June 30, 2010, compared to 71% and 66%, respectively, in the corresponding periods in 2009.

Sponsored search revenues were \$3.9 million and \$6.7 million, respectively, for the three and six months ended June 30, 2010, compared to \$1.8 million and \$3.3 million, respectively, for the corresponding periods in 2009. The increase in sponsored search revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$2.1 million, the increase from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$3.4 million. The increase arose from pay-for-click services.

We expect sponsored search revenues to remain at a low percentage of our total advertising revenues in the third quarter of 2010.

Online Game Revenues

Online game revenues were \$77.7 million and \$149.8 million, respectively, for the three and six months ended June 30, 2010, compared to \$66.6 million and \$128.2 million, respectively, for the corresponding periods in 2009. The increase in online game revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$11.1 million, and the increase from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$21.6 million. The increase was mainly due to increased popularity of our flagship game, TLBB, which we launched in May 2007.

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

Revenue Sources

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Online game revenues:				
Game operations revenues	\$75,572	\$64,936	\$145,774	\$124,282
Overseas licensing revenues	2,149	1,660	4,019	3,921
Total online game revenues	<u>\$77,721</u>	<u>\$66,596</u>	<u>\$149,793</u>	<u>\$128,203</u>

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Game Operations Revenues

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

Overseas Licensing Revenues

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

Revenue Collection

Game Operations

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

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

Overseas Licensing

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

Revenue Recognition

Game Operations

Proceeds received from sales of prepaid game cards form the basis of our revenues and are recorded initially as receipts in advance. Upon activation of the prepaid game cards, proceeds are transferred from receipts in advance to deferred revenues. Proceeds received from online sales of game points directly to game players are recorded as deferred revenues. As of June 30, 2010, we had receipts in advance from distributors and deferred revenues from our game operations of \$33.3 million, compared to \$29.6 million as of December 31, 2009.

We recognize revenues when virtual items purchased by game players are consumed. For consumable virtual items, including those with a predetermined expiration time, revenues are recognized as they are consumed, and for perpetual virtual items, revenues are recognized over their estimated lives. In addition, prepaid game cards will expire two years after the date of card production if they have never been activated. The proceeds from the expired game cards are recognized as revenues upon expiration of the cards. In contrast, once the prepaid game cards are activated and credited to a game player's account, they will not expire as long as the game account remains active. We are entitled to close a game player's account if it has been inactive for a period of 180 consecutive days. The unused balances in an inactive game player's account are recognized as revenues when the account is closed. For the three and six months ended June 30, 2010, revenue from expired game cards and inactive game players' accounts was \$0.2 million and \$0.3 million, respectively.

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Overseas Licensing

For the initial license fees receivable under our overseas licensing agreements, we recognize revenues ratably over the remaining license period, during which we are obligated to provide post-sales services such as technical support and provision of updates or upgrades to the licensed games. Unrecognized initial license fees received are recorded as deferred revenues. As of June 30, 2010, such deferred revenues were \$0.9 million, compared to \$0.6 million as of December 31, 2009. With respect to ongoing revenue-based royalties, we recognize revenues when the revenue-based royalties are earned under the terms of the overseas licensing agreements, and the collection of such royalties is probable.

Wireless and Others Revenues

Wireless Revenues

Wireless revenues were \$11.1 million and \$24.4 million, respectively, for the three and six months ended June 30, 2010, compared to \$15.0 million and \$28.3 million, respectively, for the corresponding periods in 2009.

We expect wireless revenues to decrease in the third quarter of 2010 compared to the second quarter of 2010 due to tightened control over wireless value-added services by the network operators.

Revenues for Other Services

Other services mainly consist of sales of software to third parties, provision of applications service provider (“ASP”) services, office space rental income and Websites construction and maintenance. Revenues for other services were \$250,000 and \$2.0 million, respectively, for the three and six months ended June 30, 2010, compared to \$148,000 and \$265,000, respectively, for the corresponding periods in 2009.

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,						
	2010	2009	2010 vs 2009	2010	2009	2010 vs 2009				
Cost of revenues										
Advertising:										
Brand advertising	\$22,256	57%	\$14,065	49%	\$ 8,191	\$39,539	55%	\$27,795	49%	\$ 11,744
Sponsored search	3,507	9%	2,265	8%	1,242	6,420	9%	4,563	8%	1,857
Subtotal of cost of advertising revenues	25,763		16,330		9,433	45,959		32,358		13,601
Online game	7,008	18%	3,937	13%	3,071	12,392	17%	7,373	13%	5,019
Wireless and others	6,150	16%	8,512	30%	(2,362)	13,396	19%	16,641	30%	(3,245)
Total cost of revenues	\$38,921	100%	\$28,779	100%	\$ 10,142	\$71,747	100%	\$56,372	100%	\$ 15,375

Total cost of revenues was \$38.9 million and \$71.7 million, respectively, for the three and six months ended June 30, 2010, compared to \$28.8 million and \$56.4 million, respectively, for the corresponding periods in 2009. The increase in cost of revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$10.1 million, and the increase from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$15.4 million. The increase was mainly attributable to increased cost of brand advertising revenues and increased cost of online game revenues.

Cost of Advertising Revenues

Cost of advertising revenues was \$25.8 million and \$46.0 million, respectively, for the three and six months ended June 30, 2010, compared to \$16.3 million and \$32.4 million, respectively, for the corresponding periods in 2009. The increase in cost of advertising revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$9.4 million, and the increase from six months ended June 30, 2009 to the six months ended June 30, 2010 was \$13.6 million. The increase was mainly due to increased cost of brand advertising revenues.

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Cost of Brand Advertising Revenues

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

The cost of brand advertising revenue was \$22.3 million and \$39.5 million, respectively, for the three and six months ended June 30, 2010, compared to \$14.1 million and \$27.8 million, respectively, for corresponding periods in 2009.

The increase in cost of brand advertising revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$8.2 million. The increase was primarily attributable to investment in Sohu's video site, mainly consisting of a \$3.5 million increase in content and license costs and a \$2.3 million increase in bandwidth leasing costs. In addition, the increase included a \$0.9 million increase in share-based compensation expense and a \$0.7 million increase in salary and benefits expenses.

The increase in cost of brand advertising revenues from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$11.7 million. The increase was primarily attributable to investment in Sohu's video site, mainly consisted of a \$4.0 million increase in bandwidth leasing costs and a \$3.8 million increase in content and license costs. In addition, the increase consisted of a \$1.7 million increase in share-based compensation expense, a \$1.2 million increase in salary and benefits expenses and a \$0.2 million increase in travelling and entertainment expenses.

Our brand advertising gross margins for the three and six months ended June 30, 2010 were 58% and 57%, respectively, as compared to 68% and 66%, respectively, for the corresponding periods in 2009. The decrease in our brand advertising gross margin was due to the brand advertising revenues growth was slower compared to the increase in cost of brand advertising revenues.

Cost of Sponsored Search Revenues

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

Cost of sponsored search revenues was \$3.5 million and \$6.4 million, respectively, for the three and six months ended June 30, 2010, compared to \$2.2 million and \$4.6 million, respectively, for the corresponding periods in 2009. The increase in cost of sponsored search revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$1.2 million. The increase mainly consisted of a \$0.7 million increase in payments to our Website Alliance and a \$0.5 million increase in depreciation and bandwidth leasing costs. The increase from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$1.8 million. The increase mainly consisted of a \$1.1 million increase in payments to our Website Alliance and a \$0.7 million increase in depreciation and bandwidth leasing costs.

Cost of Online Game Revenues

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

The total cost of online game revenues were \$7.0 million and \$12.4 million, respectively, for the three and six months ended June 30, 2010, compared to \$3.9 million and \$7.4 million, respectively, for the corresponding periods in 2009.

The increase in cost of online game revenues from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$3.1 million. The increase mainly consisted of a \$1.1 million increase in salary and benefits expenses, which was attributable to the increased size of our workforce; a \$0.5 million increase in revenue sharing related to licensed games in operation; a \$0.4 million increase in bandwidth leasing and communication costs due to the increased popularity of TLBB; and a \$0.4 million increase in depreciation and amortization costs related to servers.

The increase in cost of online game revenues from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$5.0 million. The increase mainly consisted of a \$2.1 million increase in salary and benefits expenses, which was attributable to the increased size of our workforce; a \$0.7 million increase in depreciation and amortization costs related to servers; a \$0.6 million increase in bandwidth leasing and communication costs due to the increased popularity of TLBB; and a \$0.5 million increase in revenue sharing related to licensed games in operation.

Our online game gross margin for the three and six months ended June 30, 2010 was 91% and 92%, respectively, as compared to 94% for both of corresponding periods in 2009.

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No significant change is expected in revenue-based royalty payments in the third quarter of 2010 compared to the second quarter of 2010.

Cost of Wireless and Others Revenues

Cost of Wireless Revenues

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

Cost of wireless revenues was \$5.8 million and \$12.7 million, respectively, for the three and six months ended June 30, 2010, compared to \$8.3 million and \$15.9 million, respectively, for the corresponding periods in 2009.

The decrease in cost of wireless revenues from the three months ended June 30, 2009 to the three months end June 30 2010 was \$2.5 million. The decrease was mainly due to decreased payments to third party wireless service alliances and content providers. The decrease in cost of wireless revenues for the three months ended June 30, 2010 as compared to the corresponding period in 2009 mainly resulted from a decrease of \$1.5 million in payments to third party wireless service alliances and content providers, and a decrease of \$1.0 million in collection charges and transmission charges paid to mobile network operators.

The decrease from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$3.2 million. The decrease in cost of wireless revenues for the six months ended June 30, 2010 as compared to the corresponding period in 2009 mainly resulted from a decrease of \$2.4 million in payments to third party wireless service alliances and content providers, and a decrease of \$0.8 million in collection charges and transmission charges paid to mobile network operators.

The collection and transmission charges vary between mobile network operators. The collection and transmission charges mainly include (i) a gateway fee of \$0.003 to \$ 0.029 per message, depending on the volume of the monthly total wireless messages in the second quarter of 2010, unchanged from the second quarter of 2009 and (ii) a collection fee of 0% to 80% of total fees collected by mobile network operators from mobile phone users (with the residual paid to us) in the second quarter of 2010, compared to 15% to 70% in the second quarter of 2009.

Our wireless gross margin was 48% for both the three and the six months ended June 30, 2010, compared to 45% and 44% for the corresponding periods in 2009.

Cost of Revenues for Other Services

Cost of revenues for other services mainly consists of personnel and other expenses in connection with sales of software, provision of ASP services and construction and maintenance of Websites. Cost of revenues for other services was \$0.3 million and \$0.7 million, respectively, for the three and six months ended June 30, 2010, compared to \$0.2 million and \$0.7 million, respectively, for the corresponding periods in 2009.

Operating Expenses

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

	<u>Three Months Ended June 30,</u>					<u>Six Months Ended June 30,</u>				
	<u>2010</u>		<u>2009</u>		<u>2010 vs 2009</u>	<u>2010</u>		<u>2009</u>		<u>2010 vs 2009</u>
Operating Expense:										
Product development	\$16,881	30%	\$14,637	29%	\$ 2,244	\$ 32,399	31%	\$27,951	32%	\$ 4,448
Sales and marketing	29,606	53%	25,810	52%	3,796	52,615	50%	42,636	49%	9,979
General and administrative	9,384	17%	9,208	19%	176	19,267	19%	17,102	19%	2,165
Amortization of intangible assets	139	0%	128	0%	11	247	0%	202	0%	45
Total operating expenses:	<u>\$56,010</u>	100%	<u>\$49,783</u>	100%	<u>\$ 6,227</u>	<u>\$104,528</u>	100%	<u>\$87,891</u>	100%	<u>\$ 16,637</u>

Total operating expenses were \$56.0 million and \$104.5 million, respectively, for the three and six months ended June 30, 2010, compared to \$49.8 million and \$87.9 million, respectively, for the corresponding periods in 2009. The increase in operating expense from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$6.2 million, and the increase from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$16.6 million. The increase in total operating expenses was mainly due to increases in sales and marketing expenses and product development expenses.

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Product Development Expenses

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

Product development expenses were \$16.9 million and \$32.4 million, respectively, for the three and six months ended June 30, 2010, compared to \$14.6 million and \$28.0 million, respectively, for the corresponding periods in 2009.

The increase in product development expenses from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$2.3 million. The increase mainly consisted of a \$2.5 million increase in salary and benefits expenses; a \$0.5 million increase in facility expenses; a \$0.5 million increase in depreciation expenses; offset by a \$1.1 million decrease in share-based compensation expense. This \$1.1 million decrease in share-based compensation expense is the net effect of share-based compensation expense recognized in the second quarter of 2009, which was generated but not recognized before the completion of Changyou's initial public offering because initial vesting was conditioned on completion of the offering, offset by share-based compensation expense recognized in the second quarter of 2010 for restricted share unites granted in January 2010.

The increase in product development expenses from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$4.4 million. The increase mainly consisted of a \$2.8 million increase in salary and benefits expenses; a \$1.0 million increase in facility expense; and a \$0.6 million increase in depreciation expenses.

Sales and Marketing Expenses

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

Sales and marketing expenses were \$29.6 million and \$52.6 million, respectively, for the three and six months ended June 30, 2010, compared to \$25.8 million and \$42.6 million, respectively, for the corresponding periods in 2009.

The increase in sales and marketing expenses from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$3.8 million. The increase was mainly due to a \$1.5 million increase in advertising and promotion expenses mainly for online game business; a \$0.7 million increase in salary and benefits expenses; a \$0.7 million increase in travelling and entertainment expenses; and a \$1.0 million increase in share-based compensation expense primarily for restricted share units granted in January 2010.

The increase in sales and marketing expenses from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$10.0 million. The increase was mainly due to a \$5.7 million increase in advertising and promotion expenses mainly for online game business; a \$1.8 million increase in salary and benefits expenses; and a \$1.6 million increase in share-based compensation expense primarily for restricted share units granted in January 2010.

General and Administrative Expenses

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

General and administrative expenses were \$9.4 million and \$19.3 million, respectively, for the three and six months ended June 30, 2010, compared to \$9.2 million and \$17.1 million, respectively, for the corresponding periods in 2009.

The increase in general and administrative expenses from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$0.2 million.

The increase in general and administrative expenses from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$2.2 million. The increase was mainly due to a \$1.4 million increase in professional fees expenses and a \$0.7 million increase in share-based compensation expense primarily for restricted share units granted in January 2010.

Amortization of Intangible Assets

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

Amortization of intangible assets was \$139,000 and \$247,000, respectively, for the three and six months ended June 30, 2010, as compared to \$128,000 and \$202,000, respectively, for the three and six months ended June 30, 2009.

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Share-based Compensation Expense

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

Share-based compensation expense was recognized in costs and/or expenses for the three and six months ended June 30, 2010 and 2009, respectively, as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cost of revenues	\$ 1,248	\$ 355	\$ 2,283	\$ 602
Product development expenses	2,218	3,299	4,663	4,573
Sales and marketing expenses	1,176	214	2,131	499
General and administrative expenses	1,811	2,746	3,904	3,227
	<u>\$ 6,453</u>	<u>\$ 6,614</u>	<u>\$12,981</u>	<u>\$8,901</u>

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

Share-based compensation expense	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
For share-based awards granted by Sohu.com Inc.	\$ 4,498	\$ 1,000	\$ 8,083	\$ 2,570
For share-based awards granted by Changyou.com Limited	1,955	5,614	4,898	6,331
	<u>\$ 6,453</u>	<u>\$ 6,614</u>	<u>\$12,981</u>	<u>\$8,901</u>

For share options granted by Sohu, as of June 30, 2010 there was no unrecognized compensation expense because the requisite service periods for the remaining share options had ended by the end of 2009. For restricted share units granted by Sohu, as of June 30, 2010 there was \$24.7 million of unrecognized compensation expense.

For share-based awards granted by Changyou, as of June 30, 2010 there was \$9.9 million of unrecognized compensation expense.

Operating Profit

As a result of the foregoing, our operating profit was \$51.2 million and \$99.3 million, respectively, for the three and six months ended June 30, 2010, as compared to \$48.5 million and \$98.6 million, respectively, for the corresponding periods in 2009.

Other (Expense) Income

Other expense was \$0.3 million and \$0.4 million, respectively, for the three and the six months ended June 30, 2010, as compared to other income of \$62,000 and \$63,000, respectively, for the three and six months ended June 30, 2009.

Interest Income and Exchange Difference

For the three months ended June 30, 2010, interest income and exchange difference was \$1.0 million, comprising interest income of \$1.5 million, offset by exchange loss of \$0.5 million. For the six months ended June 30, 2010, interest income and exchange difference was \$2.2 million, comprising interest income of \$2.7 million, offset by exchange loss of \$0.5 million. For the three and six months ended June 30, 2009, interest income and exchange difference was \$1.3 million and \$2.4 million, respectively, mainly consisted of interest income.

Income Tax Expense

Income tax expense was \$6.3 million and \$14.3 million, respectively, for the three and six months ended June 30, 2010, compared to \$8.0 million and \$14.6 million, respectively, for the corresponding periods in 2009.

The decrease in income tax expense from the three months ended June 30, 2009 to the three months ended June 30, 2010 was \$1.7 million. The decrease was mainly due to a \$1.2 million income tax expense recognized in the second quarter of 2009 as a result of a change in position by the Beijing tax bureau; a \$0.9 million income tax expense reversal in the second quarter of 2010 related to deferred tax asset recognition; and \$0.5 million income tax expense reversal in the second quarter of 2010 for the 2009 annual PRC corporate income tax filing; offset by a \$0.6 million increase income tax expense from the utilization of excess tax benefits from existing U.S. Corporate Income Tax net operating losses generated from excess tax deductions related to share-based awards, which reduced our recognition of taxes payable in 2010 for U.S. GAAP purposes; and a \$0.3 million increase in income tax expense for miscellaneous items.

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The decrease in income tax expense from the six months ended June 30, 2009 to the six months ended June 30, 2010 was \$0.3 million. The decrease was mainly due to a \$1.2 million income tax expense recognized in the second quarter of 2009 as a result of a change in position by the Beijing tax bureau; a \$0.5 million income tax expense reversal in the second quarter of 2010 for the 2009 annual PRC corporate income tax filing; offset by a \$1.2 million increase income tax expense from the utilization of excess tax benefits from existing U.S. Corporate Income Tax net operating losses generated from excess tax deductions related to share-based awards, which reduced our recognition of taxes payable in 2010 for U.S. GAAP purposes; and a \$0.2 million increase in income tax expense for miscellaneous items.

The \$0.6 million and \$1.2 million in excess tax benefits mentioned above were correspondingly treated as an increase in shareholders' equity in the consolidated balance sheet and presented as a cash outflow from operating activities and a cash inflow from financing activities. Realizing this benefit reduced the amount of taxes payable and does not otherwise affect cash flows.

Income from Continuing Operations

For the three and six months ended June 30, 2010, the income from continuing operations was \$45.5 million and \$86.8 million, respectively, compared to \$41.9 million and \$86.5 million, respectively, for the corresponding periods of 2009.

For the three months ended June 30, 2010, we had income from continuing operations of \$45.5 million, including \$3.4 million from segments other than online game and \$42.1 million from the online game segment. For the three months ended June 30, 2009, we had income from continuing operations of \$41.9 million, including \$104.2 million from segments other than online game and \$34.5 million from the online game segment and a \$96.8 million intercompany elimination for the dividend distribution from Changyou to Sohu Game.

For the six months ended June 30, 2010, we had income from continuing operations of \$86.8 million, including \$5.0 million from segments other than online game and \$81.8 million from the online game segment. For the six months ended June 30, 2009, we had income from continuing operations of \$86.5 million, including \$115.3 million from segments other than online game and \$68.0 million from the online game segment and a \$96.8 million intercompany elimination for the dividend distribution from Changyou to Sohu Game.

Gain from Discontinued E-commerce Operations

Gain from discontinued e-commerce operations for both the three and the six months ended June 30, 2010 was zero, and for both the three and the six months ended June 30, 2009, the gain from discontinued e-commerce operation was \$446,000.

Net Income

As a result of the foregoing, for the three and six months ended June 30, 2010, we had net income of \$45.5 million and \$86.8 million, respectively, as compared to \$42.3 million and \$86.9 million, respectively, for the corresponding periods of 2009.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest was \$12.0 million and \$23.1 million, respectively, for the three and six months ended June 30, 2010, compared to \$8.8 million for both of the corresponding periods in 2009.

The increase in the noncontrolling interest from the three months ended June 30, 2009 to the three months ended June 30, 2010 was mainly due to the noncontrolling interest attributable to Changyou's shareholders other than Sohu have increased from 26% to 29% during the period.

The increase in the noncontrolling interest from the six months ended June 30, 2009 to the six months ended June 30, 2010 was because no noncontrolling interest attributable to Changyou's shareholders other than Sohu was recognized until Changyou's initial public offering in April 2009.

We expect the noncontrolling interest recognized for Changyou to increase in the third quarter of 2010, compared to the second quarter of 2010, due to vesting of share-based awards as described in Note 9 - Sohu.com Inc. Shareholders' Equity - Changyou.com Limited Share-based Awards.

Net Income attributable to Sohu.com Inc.

As a result of the foregoing, we had net income attributable to Sohu of \$33.5 million and \$63.6 million, respectively, for the three and six months ended June 30, 2010, compared to \$33.5 million and \$78.1 million, respectively, for the corresponding periods of 2009.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are cash and cash equivalents, marketable securities, as well as cash flows generated from our operations. As of June 30, 2010, we had cash and cash equivalents of approximately \$599.1 million, compared to \$546.7 million as of June 30, 2009. As of June 30, 2010 and 2009, cash equivalents primarily comprise time deposits.

On November 20, 2009, we entered into an agreement to purchase an office building to be built in Beijing, which will serve as our headquarters, for a purchase price of approximately \$110 million denominated in RMB. As of June 30, 2010, \$50 million had been paid and was recognized as other assets in our consolidated financial statements. The remaining \$60 million payment will be settled in installments as various stages of the development plan are completed, of which \$11 million is expected to be made during the remainder of 2010. Construction is expected to be completed by the end of 2012.

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

Cash Generating Ability

Our cash flows are summarized below (in thousands):

	Six Months Ended June 30,	
	2010	2009
Net cash provided by operating activities	\$100,536	\$103,364
Net cash used in investing activities	(65,558)	(2,420)
Net cash (used in) provided by financing activities	(1,470)	131,501
Effect of exchange rate change on cash and cash equivalents	1,815	(124)
Net increase in cash and cash equivalents	35,323	232,321
Cash and cash equivalents at beginning of period	563,782	314,425
Cash and cash equivalents at end of period	<u>\$599,105</u>	<u>\$546,746</u>

Net Cash Provided by Operating Activities

For the six months ended June 30, 2010, \$100.5 million net cash provided by operating activities was primarily attributable to our net income of \$86.8 million, adjusted by non-cash items of share-based compensation expense of \$13.0 million, depreciation and amortization of \$11.1 million and other miscellaneous non-cash expense of \$0.4 million, offset by a net decrease in cash from working capital items of \$9.6 million and \$1.2 million excess tax benefits. In accordance with U.S. GAAP, this \$1.2 million in excess tax benefits was presented as a reduction of cash flows from operating activities and a cash inflow from financing activities. Realizing this benefit reduced the amount of taxes payable and does not otherwise affect cash flows.

For the six months ended June 30, 2009, net cash provided by operating activities was \$103.4 million. This was primarily attributable to our net income of \$86.9 million, adjusted by non-cash items of share-based compensation expense of \$8.9 million, depreciation and amortization of \$8.7 million and other miscellaneous non-cash expense of \$1.5 million, offset by a decrease in cash from working capital items of \$2.6 million. This \$2.6 million was the net impact of an \$18.9 million income tax refund received in January 2009 offset by a decrease in cash from other working capital items of \$21.5 million.

Net Cash Used in Investing Activities

For the six months ended June 30, 2010, \$65.6 million net cash used in investing activities was primarily attributable to \$52.2 million used in acquiring fixed assets and other assets, including \$27.6 million paid for the office building to be built in Beijing, and \$13.4 million used in business acquisitions.

For the six months ended June 30, 2009, \$2.4 million net cash used in investing activities was primarily attributable to \$5.1 million used in acquiring fixed assets and other assets, offset by a \$2.7 million decrease in restricted cash.

Net Cash (Used in) Provided by Financing Activities

For the six months ended June 30, 2010, \$1.5 million net cash used in financing activities was primarily attributable to repayment of a \$3.0 million loan by one of Sohu's subsidiaries to a third party, offset by \$1.2 million in excess tax benefits mentioned above in "Net Cash Provided by Operating Activities," and \$0.3 million from the issuance of common stock upon the exercise of share options granted under our stock incentive plan.

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For the six months ended June 30, 2009, \$131.5 million net cash provided by financing activities was primarily attributable to \$128.3 million of proceeds generated from Changyou's initial public offering, \$3.0 million from issuance of common stock upon the exercise of share options granted under our stock incentive plan and \$0.8 million from other financing activities, offset by reversal of excess tax benefits of \$0.6 million from share-based payment arrangements.

Cash and cash equivalents

As of June 30, 2010, we had cash and cash equivalents of approximately \$599.1 million compared to \$563.8 million as of December 31, 2009.

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

Restrictions on Cash Transfers to Sohu.com Inc.

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

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

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

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

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

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

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

Dividend Policy

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

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

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

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY EXCHANGE RATE RISK

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

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The RMB is currently freely convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the U.S. dollar. The exchange rate of the RMB against the U.S. dollar was adjusted to RMB 8.11 per U.S. dollar as of July 21, 2005, representing an appreciation of about 2%. The People’s Bank of China will announce the closing prices of foreign currencies such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and will make such prices the central parity for trading against the RMB on the following business day. On May 19, 2007, the People’s Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. While the international reactions to the RMB revaluation and widening of the RMB’s daily trading band have generally been positive, with the increased floating range of the RMB’s value against foreign currencies, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued.

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. Shortly after this announcement, the center point of the currency’s official trading band broke through the 6.8 barrier to hit 6.7969 to the U.S. dollar, which is the highest center point of the past five years. As a result of this announcement, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies in the long term, 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, 2010, which consisted of cash and cash equivalents, account receivables, prepaid and other current assets, and current liabilities. The maturity of those financial instruments was less than one year and their book value approximated fair value.

	Denominated in (in thousands)			Total
	US\$	RMB	HK\$	
Cash and cash equivalents	\$251,984	\$345,624	\$1,497	\$599,105
Account Receivables	1,364	60,650	0	62,014
Prepaid and other current assets	2,969	16,288	6	19,263
Current liabilities	9,491	161,722	327	171,540

As discussed above in Note 6 - Commitments and Contingencies – Contractual Obligation, the \$60 million that remains due for our office building purchase will be settled in RMB.

INTEREST RATE RISK

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

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

INFLATION RATE RISK

According to National Bureau of Statistics, China’s consumer price index, a main gauge of inflation, grew 2.6% in the first half of 2010. Although this rate of inflation was relatively mild, and within a manageable range, there may be significant 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 related to Sohu required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Further Strengthened Supervision of the Online Game Industry May Adversely Affect Our Online Game Operations

On June 3, 2010, the Ministry of Culture (the “MOC”) issued Interim Measures for Online Games Administration (the “MOC Measures”), which will become effective on August 1, 2010, aiming to further strengthen the supervision over the online game industry. Specifically, the MOC Measures reiterate that the MOC has the power to review the content of all online games except online game publications that have been pre-approved by the Generally Administration of Press and Publication (“GAPP”). However, the regulation does not clearly specify what constitutes “online game publication.” Further, the MOC Measures provide that all domestic online games must be filed with the MOC, while all imported online games are subject to a content review prior to their launch. If a substantial change (for example, any prominent modification to a game’s storyline, language, tasks, or trading system) is made to the content of an imported online game, it will be subject to a new content review. Changes to a domestic game must simply be filed with the MOC within 30 days.

Our online game business may be adversely affected by the MOC measures. The MOC Measures do not set forth any specific procedure for the required filing and content review procedures for online games and therefore may cause delay when we try to file or apply for content review with the MOC. In addition, for our imported licensed games, the requirement for prior approval of any substantial change may cause delay in releasing expansion packs, which may result in higher costs of our online game operation and have an adverse effect on our game revenue. In addition, the MOC Measures still do not resolve the inconsistencies and confusing elements caused by previous regulations issued by GAPP and MOC. Because there is ambiguity in the scope of roles and responsibilities for the online game regulators such as the MOC and the GAPP, we may still face stricter scrutiny of the day-to-day operations of our online game business. If any of our online game operating entities cannot comply with any of the stipulations regarding the online game industry, we may be subject to various penalties and our online game business may be negatively affected.

Our Business May Be Adversely Affected if We Cannot Obtain A Payment Service License

On 14 June, 2010, the People’s Bank of China (the “PBOC”) issued the Administrative Measure on the Payment Services of Non-Financial Institutions (the “Payment Measures”), which will go into effect on September 1, 2010. Under the Payment Measures, Payment Services are defined as the provision of capital transfer services by non-financial institutions acting as intermediaries, including services rendered in connection with network-based payments, issuance and settlement services for pre-paid cards and acquiring services for bank cards. The Payment Measures require all non-financial institutions engaging in Payment Services to obtain a Payment Service License from the PBOC. Furthermore, the Payment Measures provide a one-year grace period starting September 1, 2010. Failure to obtain a Payment License will lead to the termination of the right to provide of payment services. We have therefore prepared to apply for a Payment Service License. However, since the definition of “network-based payments” in the Payment Measures is vague, we cannot assure you that both Sohu and Changyou, our online game subsidiary, will be able to obtain the required license. If we cannot obtain the licenses, our business will be adversely affected.

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Others

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

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

Use of Proceeds

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

During the three months ended June 30, 2010, Sohu did not use any proceeds from the offering. The remaining net proceeds from the offering have been invested in cash and cash equivalents. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the Exhibit Index attached hereto.

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 5, 2010

SOHU.COM INC.

By: /S/ CAROL YU

Carol Yu
Co-President and Chief Financial Officer

Sohu.com Inc.

Quarterly Report on Form 10-Q for Quarter Ended June 30, 2010

EXHIBITS INDEX

10.1	Employment Agreement effective as of March 8, 2010, entered into on April 9, 2010, between Sohu.com Inc. and Carol Yu
10.2	Employment Agreement entered into and effective as of June 1, 2010 between Sohu.com Inc. and Belinda Wang
31.1	Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
31.2	Rule 13a-14(a)/15d-14(a) Certification of Carol Yu
32.1	Section 1350 Certification of Charles Zhang
32.2	Section 1350 Certification of Carol Yu

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, effective as of March 8, 2010, by and between Sohu.com Inc., a Delaware corporation, and YU Chor Woon Carol, an individual (the "Employee").

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

2. Employment; Duties.

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

(b) The Employee hereby agrees to devote his or her full time and best efforts in such capacities as are set forth on Annex 2 on the terms and conditions set forth herein. Notwithstanding the foregoing, the Employee may engage in other activities, such as activities involving professional, charitable, educational, religious and similar types of organizations, provided the Employee complies with the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement attached hereto as Annex 3 (the "Employee Obligations Agreement") and such other activities do not interfere with or prohibit the performance of the Employee's duties under this Agreement, or conflict in any material way with the business of the Company or of its subsidiaries and affiliates. The provisions of the Employee Obligations Agreement between the Company and the Employee as in effect prior to the date hereof (the "Prior Employee Obligations Agreement") shall continue with full force and effect with respect to, or arising in connection with, all matters through March 7, 2010 provided that the Prior Employee Obligations Agreement is hereby amended effective as of the date hereof by deleting Section 8(b) thereof in its entirety and replacing it with language identical to that of Section 9 ("Governing Law; Resolution of Disputes") of this Agreement. The Employee Obligations Agreement will be effective as of the date hereof and will have full force and effect with respect to, or arising in connection with, all matters on or after the date hereof. The Company hereby agrees that the continuation of the Employee's status as a shareholder and director of Zhaoqing and of her status as a director of Spreadtrum Communications, a semiconductor company focused on China's 3G standard TD-SCDMA, will not be deemed to be a violation of this clause, provided that (i) the businesses of such companies do not subsequently change such that they are in competition with the business of the Company and (ii) the Employee's obligations to such companies do not conflict with her obligations to the Company.

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

3. Compensation.

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

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

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

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

4. Other Employee Benefits.

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

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

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

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

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

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

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

6. Term; Termination.

(a) Unless sooner terminated pursuant to the provisions of this Section 6, the term of this Agreement (the "Term") will commence on the date hereof and end on March 7, 2013.

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

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

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

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

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

7. Share-Based Compensation-Related Provisions.

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

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

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

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

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

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

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

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

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

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

11. Miscellaneous.

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

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

Signature of Employee:

Sohu.com Inc.

Printed name of employee:

YU Chor Woon Carol

By:

Name: Charles Zhang

Title: Chief Executive Officer

Annex 1

Certain Definitions

“Cause” means:

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

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

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

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

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

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

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

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

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

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

Annex 2

Particular Terms of Employee's Employment

Title(s): Co-President and Chief Financial Officer

Reporting Requirement: The Employee will report to the Company's Board of Directors (and the Audit Committee thereof) and to the Company's Chief Executive Officer.

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

Base Salary: \$300,000 per year, subject to adjustment by the Board of Directors from time to time.

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

Other Benefits:

Annual allowance or reimbursement after tax of U.S. \$100,000 per year.

Health, life and disability insurance and tuition fees for the Employee's children as per company policy.

Tax equalization on salary and bonus to 15%.

Bonus (50% of annual base pay will be the Employee's target bonus, based on the senior management bonus plan in effect from time to time) as specifically approved each year.

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

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

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

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

3. Confidential Information.

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

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

4. Rights in Work Product.

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

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

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

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

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

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

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

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

"Termination Certificate

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

8. General Provisions.

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

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

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

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

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

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

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

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

Effective as of March 8, 2010.

Signature of Employee:

Sohu.com Inc.

Printed name of employee:

YU Chor Woon Carol

By: _____

Name: Charles Zhang

Title: Chief Executive Officer

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, effective as of June 1, 2010, by and between Sohu.com Inc., a Delaware corporation, and Xin Wang (Belinda), an individual (the "Employee").

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

2. Employment; Duties.

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

(b) The Employee hereby agrees to devote his or her full time and best efforts in such capacities as are set forth on Annex 2 on the terms and conditions set forth herein. Notwithstanding the foregoing, the Employee may engage in other activities, such as activities involving professional, charitable, educational, religious and similar types of organizations, provided the Employee complies with the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement attached hereto as Annex 3 (the "Employee Obligations Agreement") and such other activities do not interfere with or prohibit the performance of the Employee's duties under this Agreement, or conflict in any material way with the business of the Company or of its subsidiaries and affiliates. The provisions of the Employee Obligations Agreement between the Company and the Employee as in effect prior to the date hereof (the "Prior Employee Obligations Agreement") shall continue with full force and effect with respect to, or arising in connection with, all matters through June 1, 2010 provided that the Prior Employee Obligations Agreement is hereby amended effective as of the date hereof by deleting Section 8(b) thereof in its entirety and replacing it with language identical to that of Section 9 ("Governing Law; Resolution of Disputes") of this Agreement. The Employee Obligations Agreement will be effective as of the date hereof and will have full force and effect with respect to, or arising in connection with, all matters on or after the date hereof.

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

3. Compensation.

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

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

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

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

4. Other Employee Benefits.

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

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

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

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

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

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

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

6. Term; Termination.

(a) Unless sooner terminated pursuant to the provisions of this Section 6, the term of this Agreement (the "Term") will commence on the date hereof and end on May 31, 2013.

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

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

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

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

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

7. Share-Based Compensation-Related Provisions.

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

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

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

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

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

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

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

(b) if to the Company:

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

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

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

11. Miscellaneous.

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

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

Signature of Employee:

Sohu.com Inc.

Printed name of employee:

Xin Wang (Belinda)

By:

Name: Charles Zhang

Title: Chief Executive Officer

Annex 1

Certain Definitions

“Cause” means:

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

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

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

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

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

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

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

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

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

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

Annex 2

Particular Terms of Employee's Employment

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

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

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

Base Salary: \$330,000 per year, subject to adjustment by the Board of Directors from time to time.

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

Other Benefits:

Annual allowance or reimbursement after tax of U.S. \$55,000 per year.

Health, life and disability insurance and tuition fees for the Employee's children as per company policy.

Bonus as specifically approved each year.

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

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

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

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

3. Confidential Information.

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

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

4. Rights in Work Product.

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

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

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

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

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

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

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

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

"Termination Certificate

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

8. General Provisions.

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

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

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

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

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

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

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

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

Effective as of June 1, 2010.

Signature of Employee:

Sohu.com Inc.

Printed name of employee:

Xin Wang (Belinda)

By:

Name: Charles Zhang

Title: Chief Executive Officer

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 5, 2010

/s/ Charles Zhang

Charles Zhang

Chief Executive Officer and Chairman of the
Board of Directors

I, Carol Yu, certify that:

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

Dated: August 5, 2010

/s/ Carol Yu

Carol Yu

Co-President and Chief Financial Officer

SOHU.COM INC.

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

In connection with the Quarterly Report of Sohu.com Inc. (the "Company") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2010 and results of operations of the Company for the three months ended June 30, 2010.

/s/ Charles Zhang

Charles Zhang
Chief Executive Officer and Chairman of the
Board of Directors
August 5, 2010

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, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carol Yu, Co-President and Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of June 30, 2010 and results of operations of the Company for the three months ended June 30, 2010.

/s/ Carol Yu

Carol Yu

Co-President and Chief Financial Officer

August 5, 2010