

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 0-30961**

Sohu.com Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

**Level 18, SOHU.com Media Plaza
Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190
People's Republic of China
(011) 8610-6272-6666**

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

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 September 30, 2017</u>
Common stock, \$.001 par value	38,881,382

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	
	December 31, 2016	September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,050,957	\$ 1,040,564
Restricted cash	0	1,501
Short-term investments	247,926	304,264
Accounts receivable, net	189,167	280,372
Assets held for sale	103,079	0
Prepaid and other current assets (including \$29,019 and \$31,213, respectively, due from a related party as of December 31, 2016 and September 30, 2017)	260,133	228,206
Total current assets	1,851,262	1,854,907
Fixed assets, net	503,631	529,734
Goodwill	68,290	70,957
Long-term investments, net	74,273	86,585
Intangible assets, net	32,131	31,463
Restricted time deposits	269	270
Prepaid non-current assets	4,734	4,205
Other assets	29,100	27,162
Total assets	\$ 2,563,690	\$ 2,605,283
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (“VIEs”) without recourse to the Company of \$15,824 and \$56,945, respectively, as of December 31, 2016 and September 30, 2017)	\$ 193,209	\$ 270,939
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$96,695 and \$79,203, respectively, as of December 31, 2016 and September 30, 2017)	324,876	342,555
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$44,797 and \$48,307, respectively, as of December 31, 2016 and September 30, 2017)	118,951	131,723
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$10,306 and \$7,770, respectively, as of December 31, 2016 and September 30, 2017)	92,475	72,635
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$11,475 and \$12,099, respectively, as of December 31, 2016 and September 30, 2017)	40,014	73,118
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2016 and September 30, 2017)	0	61,027
Liabilities held for sale (including liabilities held for sale of consolidated VIEs without recourse to the Company of \$3,232 and nil, respectively, as of December 31, 2016 and September 30, 2017)	3,902	0
Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$89,994 and \$77,106, respectively, as of December 31, 2016 and September 30, 2017, and due to a related party of \$28,678 and \$30,525, respectively, as of December 31, 2016 and September 30, 2017)	159,315	146,115
Total current liabilities	932,742	1,098,112
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of nil as of both December 31, 2016 and September 30, 2017)	744	778
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of \$13,463 and \$14,072, respectively, as of December 31, 2016 and September 30, 2017)	32,625	30,901
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$1,273 and \$3,954, respectively, as of December 31, 2016 and September 30, 2017)	39,784	45,860
Total long-term liabilities	73,153	77,539
Total liabilities	1,005,895	1,175,651
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 shares authorized; 38,742 shares and 38,881 shares, respectively, issued and outstanding as of December 31, 2016 and September 30, 2017)	45	45
Additional paid-in capital	821,867	840,483
Treasury stock (5,889 shares as of both December 31, 2016 and September 30, 2017)	(143,858)	(143,858)
Accumulated other comprehensive income	3,220	31,192
Retained earnings	312,306	51,915
Total Sohu.com Inc. shareholders' equity	993,580	779,777
Noncontrolling interest	564,215	649,855
Total shareholders' equity	1,557,795	1,429,632
Total liabilities and shareholders' equity	\$ 2,563,690	\$ 2,605,283

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Revenues:				
Online advertising:				
Brand advertising (including revenues generated from a related party of nil for both the three months ended September 30, 2016 and the three months ended September 30, 2017, and of \$862 and nil, respectively, for the nine months ended September 30, 2016 and 2017)	\$ 110,871	\$ 74,832	\$ 349,261	\$ 242,315
Search and search-related advertising	150,667	225,363	444,633	554,145
Subtotal of online advertising revenues	261,538	300,195	793,894	796,460
Online games	98,553	132,427	300,309	340,150
Others	50,491	83,439	144,469	214,722
Total revenues	410,582	516,061	1,238,672	1,351,332
Cost of revenues:				
Online advertising:				
Brand advertising	102,137	75,733	281,427	280,660
Search and search-related advertising	76,457	115,422	210,547	294,221
Subtotal of cost of online advertising revenues	178,594	191,155	491,974	574,881
Online games	23,719	17,560	75,232	45,678
Others	20,571	53,679	60,783	138,908
Total cost of revenues	222,884	262,394	627,989	759,467
Gross profit	187,698	253,667	610,683	591,865
Operating expenses:				
Product development	90,007	105,162	261,645	289,406
Sales and marketing (including expenses generated from a related party of nil for both the three months ended September 30, 2016 and the three months ended September 30, 2017, and of \$216 and nil, respectively, for the nine months ended September 30, 2016 and 2017)	110,584	111,935	318,597	296,866
General and administrative	38,670	31,038	95,927	87,045
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	86,882	0	86,882
Total operating expenses	239,261	335,017	676,169	760,199
Operating loss	(51,563)	(81,350)	(65,486)	(168,334)
Other income /(loss)	3,678	(5,068)	(16,971)	2,337
Interest income (including interest income generated from a related party of \$294 and \$295, respectively, for the three months ended September 30, 2016 and 2017, and \$956 and \$859, respectively, for the nine months ended September 30, 2016 and 2017)	6,327	6,497	17,448	16,781
Interest expense (including interest expense generated from a related party of \$184 and \$185, respectively, for the three months ended September 30, 2016 and 2017, and \$488 and \$537, respectively, for the nine months ended September 30, 2016 and 2017)	(209)	(1,141)	(1,151)	(1,521)
Exchange difference	702	(5,032)	3,546	(10,326)
Loss before income tax expense	(41,065)	(86,094)	(62,614)	(161,063)
Income tax expense	(974)	(15,927)	(15,272)	(39,363)
Net loss	(42,039)	(102,021)	(77,886)	(200,426)
Less: Net income attributable to the noncontrolling interest shareholders	32,775	1,939	80,238	59,965
Net loss attributable to Sohu.com Inc.	\$ (74,814)	\$ (103,960)	\$ (158,124)	\$ (260,391)
Net loss	(42,039)	(102,021)	(77,886)	(200,426)
Foreign currency translation adjustments	(7,619)	19,015	(35,031)	41,152
Change in unrealized gain /(loss) for available-for-sale securities	(693)	12,496	(2,121)	11,245
Other comprehensive income/(loss)	(8,312)	31,511	(37,152)	52,397
Comprehensive loss	(50,351)	(70,510)	(115,038)	(148,029)
Less: Comprehensive income attributable to noncontrolling interest shareholders	29,724	13,808	67,275	84,390
Comprehensive loss attributable to Sohu.com Inc.	\$ (80,075)	\$ (84,318)	\$ (182,313)	\$ (232,419)
Basic net loss per share attributable to Sohu.com Inc.	\$ (1.93)	\$ (2.67)	\$ (4.09)	\$ (6.70)
Shares used in computing basic net income per share attributable to Sohu.com Inc.	38,728	38,877	38,695	38,848
Diluted net loss per share attributable to Sohu.com Inc.	\$ (1.94)	\$ (2.67)	\$ (4.12)	\$ (6.72)
Shares used in computing diluted net income per share attributable to Sohu.com Inc.	38,728	38,877	38,695	38,848

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)

	Nine Months Ended September 30,	
	2016	2017
Cash flows from operating activities:		
Net loss	\$ (77,886)	\$ (200,426)
Adjustments to reconcile net income /(loss) to net cash provided by operating activities:		
Amortization of intangible assets and purchased video content in prepaid expense	105,773	110,883
Depreciation	53,769	61,000
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	86,882
Impairment of other intangible assets and other assets	6,027	44,989
Provision for allowance for doubtful accounts	4,341	4,403
Share-based compensation expense	16,147	22,455
Investment loss from equity investments	1,006	850
Impairment of available-for-sale securities	0	5,754
Change in fair value of financial instruments	(7,732)	(5,566)
Others	(407)	(434)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	56,560	(84,542)
Prepaid and other assets	7,520	21,101
Accounts payable	17,507	20,624
Accrued liabilities and other short-term liabilities	64,720	(44,733)
Receipts in advance and deferred revenue	(2,792)	7,432
Taxes payable	(35,520)	26,463
Deferred tax	5,191	6,837
Net cash provided by operating activities	214,224	83,972
Cash flows from investing activities:		
Purchase of financial instruments	(282,000)	(568,686)
Purchase of fixed assets	(89,990)	(64,764)
Purchase of intangible and other assets	(134,513)	(46,310)
Purchase of long-term investments	(12,940)	(7,680)
Matching loan to a related party	(18,115)	0
Cash released from restricted time deposits and time deposits, net	225,462	0
Proceeds from financial instruments	295,591	500,344
Return of funds from a third party	3,619	4,928
Other cash proceeds/(payments) related to investing activities	3,840	(3,065)
Net cash used in investing activities	(9,046)	(185,233)
Cash flows from financing activities:		
Proceeds from short-term bank loan	0	67,785
Matching loan from a related party	17,041	0
Exercise of share-based awards in subsidiaries	291	493
Repayments of loans from banks	(344,500)	(6,914)
Repurchase of Sogou Class A Common Shares from noncontrolling shareholders	0	(3,190)
Other cash payments related to financing activities	(423)	(909)
Net cash provided by/(used in) financing activities	(327,591)	57,265
Effect of exchange rate changes on cash and cash equivalents	(20,427)	21,919
Reclassification of cash and cash equivalents from assets held for sale	(10,280)	11,684
Net decrease in cash and cash equivalents	(153,120)	(10,393)
Cash and cash equivalents at beginning of period	1,245,205	1,050,957
Cash and cash equivalents at end of period	<u>\$ 1,092,085</u>	<u>\$ 1,040,564</u>
Supplemental cash flow disclosures:		
Barter transactions recognized in revenue	\$ 9,259	\$ 4,771
Supplemental schedule of non-cash investing activity:		
Changes in payables and other liabilities related to fixed assets and intangible assets additions	0	54,071

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

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

Nine Months Ended September 30, 2016
(In thousands)

	<u>Sohu.com Inc. Shareholders' Equity</u>						
	<u>Total</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Noncontrolling Interest</u>
Beginning balance	\$1,730,752	\$ 45	\$798,357	\$(143,858)	\$ 50,151	\$ 536,327	\$ 489,730
Share-based compensation expense	16,145	0	5,095	0	0	0	11,050
Settlement of share-based awards in subsidiary	337	0	19,136	0	0	0	(18,799)
Contribution from noncontrolling interest shareholder	0	0	1,333	0	0	0	(1,333)
Disposal of noncontrolling interest	(238)	0	0	0	0	0	(238)
Other	(46)	0	0	0	0	0	(46)
Net income/(loss) attributable to Sohu.com Inc. and noncontrolling interest shareholders	(77,886)	0	0	0	0	(158,124)	80,238
Accumulated other comprehensive loss	(37,152)	0	0	0	(24,189)	0	(12,963)
Ending balance	<u>\$1,631,912</u>	<u>\$ 45</u>	<u>\$823,921</u>	<u>\$(143,858)</u>	<u>\$ 25,962</u>	<u>\$ 378,203</u>	<u>\$ 547,639</u>

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)
Nine Months Ended September 30, 2017
(In thousands)

	Sohu.com Inc. Shareholders' Equity						
	Total	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest
Beginning balance	\$1,557,795	\$ 45	\$821,867	\$(143,858)	\$ 3,220	\$ 312,306	\$ 564,215
Share-based compensation expense	22,455	0	4,512	0	0	0	17,943
Settlement of share-based awards in subsidiaries	494	0	14,104	0	0	0	(13,610)
Repurchase of Sogou Class A Common Shares from noncontrolling shareholders	(3,190)	0	0	0	0	0	(3,190)
Disposal of noncontrolling interest	(80)	0	0	0	0	0	(80)
Net income/(loss) attributable to Sohu.com Inc. and noncontrolling interest shareholders	(200,426)	0	0	0	0	(260,391)	59,965
Accumulated other comprehensive income	52,397	0	0	0	27,972	0	24,425
Other	187	0	0	0	0	0	187
Ending balance	<u>\$1,429,632</u>	<u>\$ 45</u>	<u>840,483</u>	<u>(143,858)</u>	<u>31,192</u>	<u>51,915</u>	<u>649,855</u>

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

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

1. THE COMPANY AND BASIS OF PRESENTATION

Nature of Operations

Sohu.com Inc. (NASDAQ: SOHU), a Delaware corporation organized in 1996, is a leading Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices in the People's Republic of China (the "PRC" or "China"). Sohu.com Inc.'s businesses are conducted by Sohu.com Inc. and its subsidiaries and VIEs (collectively referred to as the "Sohu Group" or "the Group"). The Sohu Group consists of Sohu, which when referred to in this report, unless the context requires otherwise, excludes the businesses and the corresponding subsidiaries and VIEs of Sogou Inc. ("Sogou") and Changyou.com Limited ("Changyou"), Sogou and Changyou. Sogou and Changyou are indirect controlled subsidiaries of Sohu.com Inc. Sohu is a leading Chinese language online media content and services provider. Sogou is a leading online search and search-related services and mobile Internet products provider in China. Changyou is a leading online game developer and operator in China as measured by the popularity of its PC game Tian Long Ba Bu ("TLBB") as well as its mobile game Legacy TLBB, and engages primarily in the development, operation and licensing of online games for PCs and mobile devices. Most of the Group's operations are conducted through the Group's China-based subsidiaries and VIEs.

Through the operation of Sohu, Sogou and Changyou, the Sohu Group generates online advertising revenues, including brand advertising revenues and search and search-related advertising revenues; online games revenues; and other revenues. Online advertising and online games are the Group's core businesses.

Sohu's Business

Brand Advertising Business

Sohu's main business is the brand advertising business, which offers to users, over Sohu's matrices of Chinese language online media, various content, products and services across multiple Internet-enabled devices such as PCs, mobile phones and tablets. The majority of Sohu's products and services are provided through Sohu Media Portal, Sohu Video and Focus.

- **Sohu Media Portal.** Sohu Media Portal is a leading online news and information provider in China. It provides users comprehensive content through www.sohu.com for PCs, the mobile phone application Sohu News APP and the mobile portal m.sohu.com;
- **Sohu Video.** Sohu Video is a leading online video content and service provider in China through tv.sohu.com for PCs and the mobile phone application Sohu Video APP; and
- **Focus.** Focus (www.focus.cn) is a leading online real estate information and services provider in China.

Revenues generated by the brand advertising business are classified as brand advertising revenues in the Sohu Group's consolidated statements of comprehensive income.

Other Sohu Business

Sohu also engages in the other business, which consists primarily of paid subscription services, sub-licensing of purchased video content to third parties, interactive broadcasting services, and content provided through the platforms of the three main telecommunications operators in China. Revenues generated by Sohu from the other business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Sogou's Business

Search and Search-related Business

The search and search-related business consists primarily of search and search-related advertising services offered by Sogou. Search and search-related advertising services enable advertisers' promotional links to be displayed on Sogou's search results pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. Sogou's advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. The search and search-related business benefits from Sogou's collaboration with Tencent Holdings Limited (together with its subsidiaries, "Tencent"), which provides Sogou access to traffic and content generated from the products and services provided by Tencent.

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Revenues generated by the search and search-related business are classified as search and search-related advertising revenues in the Sohu Group's consolidated statements of comprehensive income.

Other Sogou Business

Sogou also offers Internet value-added services ("IVAS"), primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services, including smart hardware products. Revenues generated by Sogou from Sogou's other business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Changyou's Business

Changyou's business lines consist of the online game business; the platform channel business, which consists primarily of online advertising and also includes IVAS; and the cinema advertising business.

Online Game Business

Changyou's online game business offers to game players (a) PC games, which are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used, and (b) mobile games, which are played on mobile devices and require an Internet connection. Prior to the sale of Shenzhen 7Road Technology Co., Ltd., or Shenzhen 7Road, in August 2015, Changyou's online games also included Web games, which are online games that are played through a Web browser with no local game software installation requirements. Following the sale of Shenzhen 7Road, Web games became an insignificant part of Changyou's online game business. All of Changyou's games are operated under the item-based revenue model, meaning that game players can play the games for free, but can choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. Revenues derived from the operation of online games are classified as online game revenues in the Sohu Group's consolidated statements of comprehensive income.

Changyou's dominant game is TLBB, a PC-based client-end game. For the three and nine months ended September 30, 2017, revenues from TLBB were \$48.3 million and \$149.4 million, respectively, accounting for approximately 36% and 44%, respectively, of Changyou's online game revenues, approximately 29% and 34%, respectively, of Changyou's total revenues, and approximately 9% and 11%, respectively, of the Sohu Group's total revenues. For the three and nine months ended September 30, 2016, revenues from TLBB were \$56.0 million and \$162.9 million, respectively, accounting for approximately 57% and 54%, respectively, of Changyou's online game revenues, approximately 41% and 41%, respectively, of Changyou's total revenues and approximately 14% and 13%, respectively, of the Sohu Group's total revenues.

In the second quarter of 2017, Changyou launched a new mobile game, Legacy TLBB, which is operated by Tencent under license from Changyou. For the three months ended September 30, 2017, revenues from Legacy TLBB were \$56.2 million, accounting for approximately 42% of Changyou's online game revenues, approximately 34% of Changyou's total revenues, and approximately 11% of the Sohu Group's total revenues.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website, one of the leading information portals in China, which provides news, electronic forums, online videos and other information services regarding online games to game players. Changyou's platform channel business also offers a number of software applications for PCs and mobile devices through two platforms, RaidCall and MoboTap. RaidCall provides online music and entertainment services, primarily in Taiwan. MoboTap provides (a) software applications for PCs and mobile devices through Dolphin Browser, which is a gateway to a host of user activities on mobile devices with the majority of its users based in overseas markets, and (b) domestic online card and board games.

In 2014, Changyou purchased 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash. Changyou's intention in making the acquisition was to generate benefits from expected synergies of MoboTap's Dolphin Browser with Changyou's platform channel business.

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In 2015, the financial performance of the Dolphin Browser was below original expectations, and Changyou's management concluded that the Dolphin Browser was unable to provide the expected synergies with Changyou's platform channel business. Accordingly management performed a goodwill impairment test using the discounted cash flow method for the goodwill generated in the acquisition of MoboTap. As a result, Changyou recorded \$29.6 million and \$8.9 million, respectively, in goodwill and intangible assets impairment losses. MoboTap then switched its focus to the development and operation of card and board games in China, which have been MoboTap's main source of revenue since 2015.

In 2016, Changyou's Board of Directors approved the disposal of Changyou's 51% equity interest in MoboTap. Accordingly, the assets and liabilities attributable to MoboTap were classified as assets and liabilities held for sale and measured at the lower of their carrying amounts or their fair value, less cost to sell, in the Sohu Group's consolidated balance sheet as of December 31, 2016.

In the first quarter of 2017, Changyou's management determined that the disposal was unlikely to be completed within one year due to the suspension of negotiations with a potential buyer of MoboTap. As a result, the assets and liabilities held for sale related to MoboTap were reclassified and have been recorded as assets and liabilities held for use and measured at the lower of the carrying value before MoboTap was classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the assets and liabilities been continuously classified as held for use, or the fair value as of the reclassification date in the Sohu Group's consolidated balance sheets commencing on the reclassification date. In the first quarter of 2017, Changyou recorded a \$1.4 million expense in the consolidated statements of comprehensive income for catch-up of depreciation and amortization expense of the assets held for sale before the reclassification.

In the third quarter of 2017, due to reinforced restrictions the Chinese regulatory authorities imposed on card and board games, some of Changyou's key distribution partners informed Changyou that they had decided to stop the distribution and promotion of card and board games, which had an adverse impact on MoboTap's current performance, and also increased the uncertainty for its future operations and cash flow. As a result, Changyou determined that it is unlikely for MoboTap to gain users and grow its online card and board games revenues in China, Changyou management performed an impairment test in the third quarter of 2017 using the discounted cash flow method and impairment charges of \$86.9 million were recognized to reflect the fair value of the MoboTap business, of which an \$83.5 million impairment loss was recognized for goodwill and a \$3.4 million impairment loss was recognized for intangible assets.

All revenues generated by the 17173.com Website are classified as brand advertising revenues, online card and board games revenues generated by MoboTap are classified as online game revenues, and IVAS revenues generated by MoboTap through the Dolphin Browser and generated by RaidCall are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Cinema Advertising Business

Changyou also operates a cinema advertising business, which consists primarily of the acquisition from operators of movie theaters, and the sale to advertisers of pre-film advertising slots, which are advertisements shown before the screening of a movie in a cinema theatre. Revenues generated by Changyou's cinema advertising business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Basis of Consolidation and Recognition of Noncontrolling Interest

The Sohu Group's consolidated financial statements include the accounts of Sohu.com Inc. and its subsidiaries and consolidated VIEs. All intra-Group transactions are eliminated.

VIE Consolidation

The Sohu Group's VIEs are wholly or partially owned by certain employees of the Group as nominee shareholders. For consolidated VIEs, management made evaluations of the relationships between the Sohu Group and the VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, the Group controls the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that the Sohu Group is the primary beneficiary of its consolidated VIEs.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders. The noncontrolling interests in the Sohu Group's consolidated financial statements primarily consist of noncontrolling interests for Sogou and Changyou.

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Noncontrolling Interest for Sogou

Sogou's Share Structure

As of September 30, 2017, Sogou had outstanding a combined total of 336,194,956 ordinary shares and preferred shares held as follows:

- (i) Sohu.com Inc.: 130,920,250 Class A Ordinary Shares, of which 3,707,000 shares may be purchased by Sohu management and key employees under an option arrangement;
- (ii) Photon Group Limited, an investment vehicle of the Sohu Group's Chairman and Chief Executive Officer Charles Zhang ("Photon"): 32,000,000 Series A Preferred Shares;
- (iii) Tencent: 6,757,875 Class A Ordinary Shares, 65,431,579 Series B Preferred Shares and 79,368,421 non-voting Class B Ordinary Shares; and
- (iv) Various employees of Sogou and Sohu: 21,716,831 Class A Ordinary Shares.

Sohu's Shareholding in and Control of Sogou

As of September 30, 2017, Sohu.com Inc. held approximately 36% of the outstanding equity capital of Sogou on a fully-diluted basis, assuming for such purpose that all share options under the Sogou 2010 Share Incentive Plan and all share options under the Sohu Management Sogou Share Option Arrangement are granted and exercised, and that all of the Sogou Class A Ordinary Shares that Sogou has repurchased are re-issued to shareholders other than Sohu.com Inc. Also as of September 30, 2017, Sohu.com Inc. held over 50% of the total voting power of Sogou on a fully-diluted basis and controlled the election of a majority of the Board of Directors of Sogou, assuming that Tencent's non-voting Class B Ordinary Shares are converted to voting shares, that all of the Sogou Class A Ordinary Shares that Sogou has repurchased are re-issued to shareholders other than Sohu.com Inc., and that all Sogou share options under the Sogou 2010 Share Incentive Plan and all Sogou share options under the Sohu Management Sogou Share Option Arrangement are granted and exercised.

As Sogou's controlling shareholder, Sohu.com Inc. consolidates Sogou in its consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.com Inc. (the "Sogou noncontrolling shareholders"). Sogou's net income/(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity/(deficit) and adjustment for share-based compensation expense in relation to share-based awards that are unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Series A Preferred Shares and Series B Preferred Shares (collectively, the "Sogou Preferred Shares") and Ordinary Shares are accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as the Sohu Group has the right to reject a redemption requested by the noncontrolling shareholders. These treatments are based on the terms governing the investments of, and on the terms of the classes of Sogou shares held by, the noncontrolling shareholders in Sogou.

Principles of Allocation of Sogou's Profit and Loss

By virtue of the terms of Sogou Preferred Shares and Class A Ordinary Shares and Class B Ordinary Shares, Sogou's losses are allocated in the following order:

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

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Net income from Sogou is allocated in the following order:

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

Key Terms of Sogou Preferred Shares

The following is a summary of some of the key terms of the Sogou Preferred Shares under Sogou's Memorandum and Articles of Association as currently in effect.

(i) Dividend Rights

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

(ii) Liquidation Rights

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

(iii) Redemption Rights

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

(iv) Conversion Rights

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

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(v) Voting Rights

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

(vi) Other Rights

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

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

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

Voting Agreement Signed among Sohu, Tencent, and Sogou in August 2017

In August 2017, in anticipation of Sogou's previously-announced currently pending proposed IPO, Sohu, Tencent, and Sogou entered into a voting agreement (the "Voting Agreement") that will take effect upon the completion of the proposed IPO. Effective upon the completion of the proposed IPO, all of the Sogou shares held by Sohu for its own account and all of the Sogou shares held by Tencent will be redesignated as Class B Ordinary Shares. Each Class B Ordinary Share will be entitled to ten votes per share on any matter brought to a vote of Sogou shareholders, whereas Class A Ordinary Shares, which will be held by shareholders other than Sohu and Tencent, will be entitled to one vote per share. As a result of the additional voting power of the Class B Ordinary Shares, upon the completion of the proposed IPO Sogou and Tencent will together have the power to determine all matters that may come to a vote of Sogou's shareholders, including the election of directors. Under the Voting Agreement, following the completion of Sogou's proposed IPO, Sohu will have the right to appoint a majority of Sogou's Board of Directors and Tencent will have the right to appoint two directors. Sohu will continue to consolidate Sogou in its financial statements following the completion of the proposed IPO, and will provide for non-controlling interests reflecting ordinary shares in Sogou held by shareholders other than Sohu.

Noncontrolling Interest for Changyou

Changyou is a public company listed on the NASDAQ Global Select Market. As of September 30, 2017, Sohu.com Inc. held approximately 68% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou.

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

Basis of Presentation

These financial statements have been prepared in accordance with generally accepted accounting principles ("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 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, 2016.

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the nine months ended September 30, 2017 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

2. SEGMENT INFORMATION

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

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

	Three Months Ended September 30, 2016				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 109,560	\$ 165,952	\$ 135,862	\$ (792)	\$ 410,582
Segment cost of revenues	(102,772)	(78,788)	(41,071)	42	(222,589)
Segment gross profit	6,788	87,164	94,791	(750)	187,993
SBC (2) in cost of revenues	(266)	(3)	(26)	0	(295)
Gross profit	6,522	87,161	94,765	(750)	187,698
Operating expenses:					
Product development (3)	(25,043)	(34,496)	(27,410)	1,047	(85,902)
Sales and marketing (1)	(66,555)	(26,011)	(18,311)	1,045	(109,832)
General and administrative	(11,831)	(6,409)	(12,432)	20	(30,652)
SBC (2) in operating expenses	(5,509)	(190)	(7,176)	0	(12,875)
Total operating expenses	(108,938)	(67,106)	(65,329)	2,112	(239,261)
Operating profit/(loss)	(102,416)	20,055	29,436	1,362	(51,563)
Other income (3)	1,379	970	2,691	(1,362)	3,678
Interest income (4)	2,396	705	6,929	(3,703)	6,327
Interest expense (4)	(2,862)	0	(1,050)	3,703	(209)
Exchange difference	(297)	481	518	0	702
Income/(loss) before income tax benefit/(expense)	(101,800)	22,211	38,524	0	(41,065)
Income tax benefit/(expense)	635	(2,128)	519	0	(974)
Net income/(loss)	\$ (101,165)	\$ 20,083	\$ 39,043	\$ 0	\$ (42,039)

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): The elimination represents interest income/ (expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

	Three Months Ended September 30, 2017				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 93,648	\$ 257,345	\$ 165,572	\$ (504)	\$ 516,061
Segment cost of revenues	(87,900)	(130,299)	(43,961)	48	(262,112)
Segment gross profit	5,748	127,046	121,611	(456)	253,949
SBC (2) in cost of revenues	(278)	0	(4)	0	(282)
Gross profit	5,470	127,046	121,607	(456)	253,667
Operating expenses:					
Product development (3)	(29,225)	(40,000)	(35,281)	1,591	(102,915)
Sales and marketing (1)	(50,239)	(44,791)	(17,467)	906	(111,591)
General and administrative	(11,551)	(6,246)	(9,591)	32	(27,356)
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	0	(86,882)	0	(86,882)
SBC (2) in operating expenses	(3,753)	(316)	(2,204)	0	(6,273)
Total operating expenses	(94,768)	(91,353)	(151,425)	2,529	(335,017)
Operating profit/(loss)	(89,298)	35,693	(29,818)	2,073	(81,350)
Other income/(expense) (3)	(3,534)	(42)	581	(2,073)	(5,068)
Interest income (4)	1,731	2,390	8,916	(6,540)	6,497
Interest expense (4)	(6,576)	0	(1,105)	6,540	(1,141)
Exchange difference	(973)	(2,475)	(1,584)	0	(5,032)
Income/(loss) before income tax expense	(98,650)	35,566	(23,010)	0	(86,094)
Income tax expense	(541)	(4,593)	(10,793)	0	(15,927)
Net income/(loss)	\$ (99,191)	\$ 30,973	\$ (33,803)	\$ 0	\$ (102,021)

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Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): The elimination represents interest income/ (expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

	Nine Months Ended September 30, 2016				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 357,437	\$ 488,829	\$ 394,862	\$ (2,456)	\$ 1,238,672
Segment cost of revenues	(284,765)	(218,394)	(124,795)	259	(627,695)
Segment gross profit	72,672	270,435	270,067	(2,197)	610,977
SBC (2) in cost of revenues	(255)	(3)	(36)	0	(294)
Gross profit	72,417	270,432	270,031	(2,197)	610,683
Operating expenses:					
Product development (3)	(71,606)	(99,781)	(87,785)	3,328	(255,844)
Sales and marketing (1)	(194,171)	(82,618)	(43,921)	3,040	(317,670)
General and administrative	(36,914)	(13,972)	(35,985)	69	(86,802)
SBC (2) in operating expenses	(4,007)	(2,542)	(9,304)	0	(15,853)
Total operating expenses	(306,698)	(198,913)	(176,995)	6,437	(676,169)
Operating profit /(loss)	(234,281)	71,519	93,036	4,240	(65,486)
Other income /(expense) (3)	3,832	(26,623)	10,060	(4,240)	(16,971)
Interest income (4)	6,851	4,233	15,135	(8,771)	17,448
Interest expense (4)	(6,739)	0	(3,183)	8,771	(1,151)
Exchange difference	366	819	2,361	0	3,546
Income /(loss) before income tax benefit /(expense)	(229,971)	49,948	117,409	0	(62,614)
Income tax benefit /(expense)	1,505	(4,550)	(12,227)	0	(15,272)
Net income /(loss)	<u>\$(228,466)</u>	<u>\$ 45,398</u>	<u>\$ 105,182</u>	<u>\$ 0</u>	<u>\$ (77,886)</u>

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): The elimination represents interest income/ (expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

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	Nine Months Ended September 30, 2017				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 286,990	\$ 630,572	\$ 435,803	\$ (2,033)	\$ 1,351,332
Segment cost of revenues	(317,649)	(323,213)	(118,027)	118	(758,771)
Segment gross profit	(30,659)	307,359	317,776	(1,915)	592,561
SBC (2) in cost of revenues	(619)	(5)	(72)	0	(696)
Gross profit	(31,278)	307,354	317,704	(1,915)	591,865
Operating expenses:					
Product development (3)	(82,251)	(110,335)	(91,911)	4,590	(279,907)
Sales and marketing (1)	(152,233)	(106,147)	(39,785)	3,238	(294,927)
General and administrative	(29,859)	(16,182)	(26,769)	95	(72,715)
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	0	(86,882)	0	(86,882)
SBC (2) in operating expenses	(3,304)	(5,313)	(17,151)	0	(25,768)
Total operating expenses	(267,647)	(237,977)	(262,498)	7,923	(760,199)
Operating profit /(loss)	(298,925)	69,377	55,206	6,008	(168,334)
Other income /(expense) (3)	2,799	112	5,434	(6,008)	2,337
Interest income (4)	5,130	6,187	23,526	(18,062)	16,781
Interest expense (4)	(16,317)	0	(3,266)	18,062	(1,521)
Exchange difference	(1,165)	(5,277)	(3,884)	0	(10,326)
Income /(loss) before income tax expense	(308,478)	70,399	77,016	0	(161,063)
Income tax expense	(2,413)	(7,672)	(29,278)	0	(39,363)
Net income /(loss)	<u>\$ (310,891)</u>	<u>\$ 62,727</u>	<u>\$ 47,738</u>	<u>\$ 0</u>	<u>\$ (200,426)</u>

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): The elimination represents interest income/ (expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

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	As of December 31, 2016				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 167,691	\$286,078	\$ 597,188	\$ 0	\$1,050,957
Accounts receivable, net	100,317	41,781	47,150	(81)	189,167
Fixed assets, net	196,839	117,022	189,770	0	503,631
Total assets (1)	\$1,241,844	\$499,589	\$1,708,037	\$ (885,780)	\$2,563,690

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group loans between the Sohu segment and the Changyou segment, and elimination of long-term investments in subsidiaries and consolidated VIEs.

	As of September 30, 2017				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 90,540	\$373,141	\$ 576,883	\$ 0	\$1,040,564
Accounts receivable, net	103,400	71,628	105,429	(85)	280,372
Fixed assets, net	198,282	141,328	190,124	0	529,734
Total assets (1)	\$1,134,611	\$677,174	\$1,850,960	\$(1,057,462)	\$2,605,283

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group loans between the Sohu segment and the Changyou segment, and elimination of long-term investments in subsidiaries and consolidated VIEs.

3. SHARE-BASED COMPENSATION EXPENSE

Sohu (excluding Fox Video Limited), Sogou, Changyou, and Fox Video Limited (“Sohu Video”) have incentive plans for the granting of share-based awards, including stock options, share options and restricted share units, to members of the boards of directors, management and other key employees.

Sohu (excluding Sohu Video), Sogou, and Changyou Share-based Awards

For Sohu (excluding Sohu Video) stock options that Sohu granted before 2006 and Sohu restricted share units, Sogou share-based awards, and Changyou share-based awards under the Changyou 2008 Share Incentive Plan, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates.

For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses, share-based compensation expense is recognized in the consolidated statements of comprehensive income based on the then-current fair value at each reporting date.

Options for the purchase of Sohu common stock contractually granted under the Sohu 2010 Stock Incentive Plan and options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between the companies and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date, and was re-measured and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards’ fair value will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair value at the grant date. In determining the fair value of stock options and share options granted by Sohu and Changyou, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

For Sogou Class A Ordinary Shares repurchased by Sogou from the former President and Chief Financial Officer of the Sohu Group in the first quarter of 2017, share-based compensation expense is recognized by the Sohu Group in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value of the Sogou Class A Ordinary Shares at the repurchase date.

Sohu Video Share-based Awards

On January 4, 2012, Sohu Video, the holding entity of Sohu’s video division, adopted a 2011 Share Incentive Plan (the “Video 2011 Share Incentive Plan”) which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (representing approximately 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of September 30, 2017, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made, of which options for the purchase of 4,972,800 ordinary shares were vested.

For purposes of ASC 718-10-25, as of September 30, 2017, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. Therefore the fair value of the awards was not determinable and could not be accounted for. In accordance with ASC 718-10-55, the Group’s management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date. Therefore, the Group recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Share-based Compensation Expense Recognition

Share-based compensation expense was recognized in costs and expenses for the three and nine months ended September 30, 2016 and the three and nine months ended September 30, 2017 as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Share-based compensation expense				
Cost of revenues	\$ 295	\$ 281	\$ 294	\$ 696
Product development expenses	4,105	2,247	5,801	9,499
Sales and marketing expenses	752	344	927	1,939
General and administrative expenses	8,018	3,682	9,125	14,330
	<u>\$ 13,170</u>	<u>\$ 6,554</u>	<u>\$ 16,147</u>	<u>\$ 26,464</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Share-based compensation expense				
For Sohu (excluding Sohu Video) share-based awards	\$ 5,639	\$ 4,086	\$ 4,749	\$ 4,088
For Sogou share-based awards (2)	180	310	2,505	5,302
For Changyou share-based awards	7,202	2,208	9,340	17,223
For Sohu Video share-based awards (1)	149	(50)	(447)	(149)
	<u>\$ 13,170</u>	<u>\$ 6,554</u>	<u>\$ 16,147</u>	<u>\$ 26,464</u>

Note (1): The negative amount represented re-measured compensation expense based on the then-current fair value of the awards on the reporting date.

Note (2): Compensation expense for Sogou share-based awards also includes compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses and compensation expense of \$4.0 million, recognized in the first quarter of 2017 in connection with Sogou’s repurchase of Sogou Class A Ordinary Shares from the former President and Chief Financial Officer of the Sohu Group, which is equal to the excess of the repurchase price over the fair value of the Sogou Class A Ordinary Shares as of the repurchase date.

There was no capitalized share-based compensation expense for the three and nine months ended September 30, 2016 and 2017.

For details of the share-based compensation expenses of the Sohu Group, see Note 12.

4. RELATED PARTY TRANSACTIONS

Under an agreement between Sohu and Fox Financial entered into in August 2014, Sohu invested \$4.8 million and \$16.1 million, respectively, in Fox Financial in August 2014 and April 2015. In February 2016, Sohu invested an additional \$10.5 million in Fox Financial, see Note 6 - Fair Value Measurements - Other Financial Instruments - Long-term Investments.

Changyou's Loan Arrangements with Fox Financial Technology Group Limited ("Fox Financial," formerly known as "SoEasy Internet Finance Group Limited")

Commencing in April 2015, certain subsidiaries of Changyou and certain subsidiaries of Fox Financial (Fox Financial is one of Sohu's equity investments, see Note 6 - FAIR VALUE MEASUREMENTS) entered into a series of loan agreements pursuant to which the subsidiaries of Changyou are entitled to draw down HK dollar-denominated or U.S. dollar-denominated loans from the Fox Financial subsidiaries and the Fox Financial subsidiaries are entitled to draw down equivalent RMB-denominated loans from the subsidiaries of Changyou, to facilitate each other's business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate.

As of September 30, 2017, Changyou had U.S. dollar-denominated loans payable to Fox Financial in a total amount of approximately \$29.4 million, which was recorded in other short-term liabilities, and RMB-denominated loans receivable from Fox Financial in a total amount of approximately \$29.4 million, which was recorded in prepaid and other current assets. For the three months and nine months ended September 30, 2017, Changyou incurred interest expense of \$0.2 million and \$0.5 million, respectively, and earned interest income of \$0.3 million and \$0.9 million, respectively. As of September 30, 2017, total interest expense payable to Fox Financial amounted to \$1.1 million, which was recorded in other short-term liabilities; and total interest income receivable from Fox Financial was \$1.8 million, which was recorded in prepaid and other current assets.

Other Information

For the three months ended September 30, 2017 and 2016, the Sohu Group generated no brand advertising revenue and no sales and marketing expense from Fox Financial. For the nine months ended September 30, 2017 and 2016, the Sohu Group generated brand advertising revenue from Fox Financial of nil and \$0.9 million, respectively, and incurred sales and marketing expense for Fox Financial of nil and \$0.2 million, respectively.

5. INTRA-GROUP LOAN AND SHARE PLEDGE AGREEMENT

On October 24, 2016, Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), a subsidiary of Sohu, entered into a loan agreement (the "Loan Agreement") with Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), a subsidiary of Changyou, pursuant to which Sohu Media may borrow from time to time from AmazGame up to RMB1.00 billion (or approximately \$144.9 million). The first request for an advance under the Loan Agreement was required to be made on or prior to December 31, 2016, and requests for further advances may be made for one year following the initial advance. The one-year request period may be extended for another one-year period with the consent of AmazGame. Principal amounts outstanding under the Loan Agreement bear interest at an annual rate of 6%. The outstanding principal of each advance will be due one year from the date of the advance, subject to extension for an additional year with the consent of AmazGame.

Also on October 24, 2016, Sohu.com (Game) Limited ("Sohu Game"), a Cayman Islands company that is an indirect subsidiary of Sohu and is the direct parent of Changyou, and Changyou entered into a share pledge agreement (the "Share Pledge Agreement") pursuant to which Sohu Game pledged to Changyou 11,386,228 Class B ordinary shares of Changyou held by Sohu Game. The number of Class B ordinary shares pledged by Sohu Game to Changyou is subject to upward adjustment from time to time while amounts are outstanding under the Loan Agreement if the price of Changyou's American depositary shares ("ADSs") on the Nasdaq Global Select Market drops for at least 10 consecutive trading days by an amount of 20% or more from such price as of the date of the Share Pledge Agreement, and is subject to further upward adjustment in the event of any additional incremental drops of 20% or more in the price of Changyou's ADSs during 10 consecutive trading days. The share pledge agreement gives Changyou the right to apply the outstanding principal and accrued interest on the loan to the repurchase of Changyou Class B ordinary shares from Sohu Game in the event that such principal and interest under the Loan Agreement are not paid when due. As of September 30, 2017, the number of Class B ordinary shares pledged by Sohu Game to Changyou was 13,704,663.

In December 2016, March 2017 and April 2017, Sohu Media received RMB500.0 million (or approximately \$73.8 million), RMB200.0 million (or \$29.5 million) and RMB 300.0 million (or \$44.3 million), respectively, from AmazGame. As of September 30, 2017, the total outstanding balance of the loan was RMB1.00 billion (or \$147.6 million). The intra-Group loan has been eliminated upon consolidation.

6. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The Sohu Group's financial instruments include cash equivalents, restricted cash, short-term investments, accounts receivable, assets held for sale, prepaid and other current assets, long-term investments (including available-for-sale equity securities), restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, liabilities held for sale, other short-term liabilities and long-term accounts payable.

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

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

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

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

Financial Instruments Measured at Fair Value

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2016 (in thousands):

Items	As of December 31, 2016	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 626,697	\$ 0	\$ 626,697	\$ 0
Short-term investments	247,926	0	247,926	0
Available-for-sale equity securities	10,381	10,381	0	0
Foreign exchange forward contracts recognized in prepaid and other current assets	3,040	0	3,040	0
Restricted time deposits	269	0	269	0
Total	\$ 888,313	\$ 10,381	\$ 877,932	\$ 0

The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of September 30, 2017 (in thousands):

Items	As of September 30, 2017	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 894,099	\$ 0	\$ 894,099	\$ 0
Restricted cash	1,501	0	1,501	0
Short-term investments	304,264	0	304,264	0
Available-for-sale equity securities	20,833	20,833	0	0
Restricted time deposits	270	0	270	0
Total Assets	\$ 1,220,967	\$ 20,833	\$ 1,200,134	\$ 0
Foreign exchange forward contracts recognized in other short-term liabilities	\$ 469	\$ 0	\$ 469	\$ 0

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Cash Equivalents

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

Short-term Investments

As of September 30, 2017 and December 31, 2016, the Sohu Group's investment in financial instruments was \$304.3 million and \$247.9 million, respectively. The investment instruments were issued by commercial banks in China, and have a variable interest rate indexed to performance of underlying assets. Since these investments' maturity dates are within one year, they are classified as short-term investments. For the three and nine months ended September 30, 2017, the Sohu Group recorded in the consolidated statements of comprehensive income changes in the fair value of short-term investments in the amounts of \$3.4 million and \$9.1 million, respectively. For the three and nine months ended September 30, 2016, the Sohu Group recorded in the consolidated statements of comprehensive income changes in the fair value of short-term investments in the amounts of \$2.8 million and \$5.3 million, respectively.

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

Available-for-Sale Equity Securities

Available-for-sale equity securities are valued using the market approach based on the quoted prices in active markets at the reporting date. The Group classifies the valuation techniques that use these inputs as Level 1 of fair value measurements.

On August 12, 2014, Sohu acquired approximately 6% of the total outstanding common shares of Keyeast Co., Ltd., a Korean-listed company ("Keyeast"), for a purchase price of \$15.1 million. The Sohu Group classified this investment as available-for-sale equity securities under long-term investments, and reported it at fair value using a market approach based on Keyeast's stock price on the South Korean stock market. The unrealized income or loss representing the change in fair value of this investment was recorded in accumulated other comprehensive income/(loss) in the Sohu Group's consolidated balance sheets. The fair value of this investment was continually below its original cost for a twelve-month period ended July 31, 2017. Management considered the decline in the fair value to be other-than-temporary, and the Sohu Group recognized an impairment loss of \$5.8 million in other income/(loss) in the Sohu Group's consolidated statements in the third quarter of 2017. As of September 30, 2017, the fair value of the Keyeast available-for-sale equity securities held by Sohu was \$7.8 million.

On May 5, 2011, Sohu acquired 2% of the equity interests of Hylink Digital Solution Co., Ltd ("Hylink"), for a purchase price of RMB15 million (\$2.3 million). Given that Sohu neither controls nor has significant influence over Hylink, and the equity interest of Hylink did not have a readily determinable fair value, Sohu accounted for this investment using the cost method. On August 2, 2017, Hylink completed its IPO on the Shanghai Stock Exchange. Upon the completion of Hylink's IPO, Sohu's interest in Hylink was diluted to 1.5% of Hylink's total ordinary shares then outstanding. The Sohu Group reclassified this investment as available-for-sale equity securities with the investment's fair value measured based on Hylink's stock price on the Shanghai Stock Exchange. As of September 30, 2017, the fair value of the Hylink available-for-sale equity securities held by Sohu was RMB86.7 million (\$13.1 million). Unrealized income representing the change in fair value of \$10.8 million was recorded in accumulated other comprehensive income in the Sohu Group's consolidated balance sheets.

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Assets and Liabilities Held for Sale

In 2016, Changyou's Board of Directors approved the disposal of the 51% equity interest in MoboTap. Accordingly, the assets and liabilities attributable to MoboTap are classified as assets and liabilities held for sale and measured at the lower of their carrying amounts or their fair value, less cost to sell, in the Sohu Group's consolidated balance sheet as of December 31, 2016. Due to the suspension of negotiations with a potential buyer of MoboTap in the first quarter of 2017, Changyou's management determined that the disposal is unlikely to be completed within one year. As a result, the assets held for sale and liabilities held for sale related to MoboTap were reclassified and have been recorded as assets and liabilities held for use and measured at the lower of the carrying value before MoboTap was classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the assets and liabilities been continuously classified as held for use, or their fair value as of the reclassification date, respectively, in the Sohu Group's consolidated balance sheet since the reclassification date. In the first quarter of 2017, Changyou recorded a \$1.4 million expense in the consolidated statements of comprehensive income for catch-up of depreciation and amortization expense of the assets held for sale before the reclassification.

Foreign Exchange Forward Contracts

In September 2016 and January 2017, Changyou entered into foreign exchange forward contracts with banks in an aggregate nominal amount of \$100 million and \$50 million, respectively. Changyou entered into the foreign exchange forward contracts in compliance with its risk management policy for the purpose of eliminating the negative impact on earnings and equity resulting from fluctuations in the exchange rate between the U.S. dollar and the RMB. For the three and nine months ended September 30, 2017, the Sohu Group recorded changes in the fair value of the forward contracts consisting of a gain of \$0.2 million and a loss of \$3.5 million, respectively, in the consolidated statements of comprehensive income.

The Group estimated the fair values of foreign exchange forward contracts using the Black-Scholes model. The fair values of the forward contracts were estimated based on quoted forward exchange prices at the reporting date. The Group classifies the fair value measurement of the forward contracts based on such inputs as Level 2 of fair value measurements.

Other Financial Instruments

The fair values of other financial instruments are estimated for disclosure purposes as follows:

Long-term Investments

Long-term Investment in Fox Financial

Under an agreement between Sohu and Fox Financial entered into in August 2014, Sohu invested \$4.8 million and \$16.1 million in Fox Financial on August 2014 and April 2015, respectively. In February 2016, Sohu invested an additional \$10.5 million in Fox Financial. Sohu accounted for its investments in Fox Financial under long-term investments. These investments include both preferred shares and common shares. Sohu accounted for its investment in Fox Financial's preferred shares under the cost method, since they were not considered to be common shares in substance and had no readily determinable fair value. Sohu accounted for its investment in Fox Financial's common shares under the equity method, since Sohu can exercise significant influence but does not own a majority of Fox Financial's equity capital or control Fox Financial.

In March 2017, Fox Financial issued additional common shares to new investors, while shares held by Sohu remained unchanged. As a result, Sohu's shareholding percentage of common shares was diluted from 7% to 6%. In accordance with ASC 320-10-40, the Group recognized dilution gain of \$0.7 million in other income in the first quarter of 2017. As of September 30, 2017, the carrying value of Sohu's investment in Fox Financial was \$25.2 million.

Long-term Investment in Zhihu

As of September 30, 2017, Sogou had invested a cumulative total of \$18.9 million in Zhihu Technology Limited ("Zhihu"), a company that engages primarily in the business of operating an online question and answer-based knowledge and information-sharing platform. Sogou accounted for the investment in Zhihu using the cost method, since Sogou does not have significant influence over Zhihu and the underlying shares are not considered in-substance common stock.

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Short-term Receivables and Payables

Accounts receivable and prepaid and other current assets are financial assets with carrying values that approximate fair value due to their short-term nature. Short-term accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans and other short-term liabilities are financial liabilities with carrying values that approximate fair value due to their short-term nature. For short-term receivables and payables, the Group estimated fair values using the discounted cash flow method. The Group classifies the valuation technique as Level 2 of fair value measurements.

Short-term Bank Loans

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

- Factoring contract with recourse with HongKong and Shanghai Banking Corporation Limited (“HSBC”)

In May 2017, Sohu entered into a one year factoring contract with recourse with HSBC, pursuant to which Sohu may borrow from HSBC from time to time up to a combined aggregate of RMB180.0 million (or \$27.1 million), which is the upper limit reviewed by HSBC at least annually. The loan is secured by up to RMB198.0 million (or \$29.8 million) of Sohu’s accounts receivable and guaranteed by Sohu Media. Interest will accrue on the principal amounts of the loans outstanding at an annual rate published by the People’s Bank of China (the “PBOC”). As of September 30, 2017, the total outstanding balance of the loan was RMB5.0 million (or \$0.8 million), which is secured by a pledge of accounts receivable equal to 110% of this amount. As of the date of the filing of this report, all of the outstanding loan balance had been repaid.

- Credit agreements with Ping An Bank Co., Ltd. (“Ping An Bank”)

In May 2017, Sohu entered into credit agreements with Ping An Bank pursuant to which Sohu was entitled to borrow from Ping An Bank from time to time until May 18, 2020 up to a combined aggregate of RMB2.50 billion (or \$376.7 million). The loan was initially secured by pledges of Sohu’s two buildings and is guaranteed by Sohu.com (Game) Limited (“Sohu Game”). The initial interest rate for the loans was an annual rate equal to 115% of the rate published by the PBOC. In July 2017, Sohu entered into an amendment of its loan arrangements with Ping An Bank pursuant to which interest on outstanding principal amounts will accrue at a rate designated separately upon each drawdown based on the benchmark loan rate published by the PBOC with reference to then prevailing market interest rates. In July 2017, Sohu drew down from Ping An Bank pursuant to the loan arrangements a loan with a term of 12 months in the amount of RMB400.0 million (or approximately \$59.0 million) and an interest rate of 6.525%, which is 150% of the rate published by the PBOC as of the date of the drawdown. In September 2017, Sohu entered into another amendment of its loan arrangements with Ping An Bank pursuant to which the maximum amount that Sohu is entitled to borrow has been reduced from RMB2.5 billion (or \$376.7 million) to RMB600 million (or \$90.4 million), and one of the Sohu’s buildings has been released from the loan agreement as a subject matter of pledge. As of September 30, 2017, the total outstanding balance of the loan was RMB400 million (or \$60.3 million).

Long-term Payables

Long-term accounts payable and long-term bank loans are financial liabilities with carrying values that approximate fair value due to any changes in fair value, after considering the discount rate, being immaterial. The Group estimated fair values using the discounted cash flow method, and classifies the valuation technique as Level 2 of fair value measurements.

In September 2017, Sohu entered into credit agreements with the Industrial and Commercial Bank of China Limited (“ICBC”) pursuant to which Sohu will be entitled to borrow from ICBC from time to time until March 31, 2018 up to a combined aggregate of RMB800 million (or \$123 million). The outstanding principal amount of the loan will be payable in four equal installments, with the first installment payable 18 months after the drawdown and the other three installments payable semi-annually at the end of each of the three successive six-month periods after the first installment payment. The loan is secured by the pledge of Sohu’s building that was released based upon the amendment of Sohu’s loan arrangements with Ping An Bank. Interest will accrue on the principal amounts of the loans outstanding at an annual rate equal to the Loan Prime Rate (“LPR”) published by the National Interbank Funding Center, plus 1.2%. As of September 30, 2017, there was no outstanding loan balance under the credit agreements with ICBC.

7. IMPAIRMENT OF PURCHASED VIDEO CONTENT

In the second quarter of 2017, the Sohu Group recognized an impairment loss of \$44.9 million in cost of revenues with respect to its purchased video content, which was mainly due to the ongoing restructuring of the sales team of Sohu Video as well as a strategic shift to reduce purchasing of licensed video content beginning in the second half of 2016. These two factors had an adverse impact on Sohu Video's performance for the second quarter of 2017, which failed to meet management's expectations. Management also revised downward its expectations of the programming usefulness of certain of Sohu Video's purchased video content. The discounted cash flow method was used to determine the fair value of this purchased video content.

8. GOODWILL

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

	<u>Sohu</u>	<u>Sogou</u>	<u>Changyou</u>	<u>Total</u>
Balance as of December 31, 2016				
Goodwill	\$ 72,011	5,565	96,949	174,525
Accumulated impairment losses	<u>(35,788)</u>	<u>0</u>	<u>(70,447)</u>	<u>(106,235)</u>
	<u>\$ 36,223</u>	<u>\$5,565</u>	<u>\$ 26,502</u>	<u>\$ 68,290</u>
Transactions in 2017				
Goodwill associated with MoboTap and reclassification of assets held for sale to assets held for use (1)	0	0	83,470	83,470
Goodwill associated with an acquisition	1,000	0	0	1,000
Foreign currency translation adjustment	681	251	735	1,667
Goodwill impairment (2)	<u>0</u>	<u>0</u>	<u>(83,470)</u>	<u>(83,470)</u>
Balance as of September 30, 2017	<u>\$ 37,904</u>	<u>\$5,816</u>	<u>\$ 27,237</u>	<u>\$ 70,957</u>
Balance as of September 30, 2017				
Goodwill	\$ 73,692	\$5,816	\$ 181,154	\$ 260,662
Accumulated impairment losses	<u>(35,788)</u>	<u>0</u>	<u>(153,917)</u>	<u>(189,705)</u>
	<u>\$ 37,904</u>	<u>\$5,816</u>	<u>\$ 27,237</u>	<u>\$ 70,957</u>

Note (1): Represents goodwill associated with the reclassification of assets held for sale to assets held for use in connection with MoboTap. See Note 6 – Fair Value Measurements – Assets and Liabilities Held for Sale.

Note (2): Represents goodwill impairment associated with the MoboTap business recognized in the third quarter of 2017. Due to reinforced restrictions the Chinese regulatory authorities imposed on online card and board games, some of Changyou's key distribution partners informed Changyou that they had decided to stop the distribution and promotion of card and board games in the third quarter of 2017, which had an adverse impact on MoboTap's current performance, and also increased the uncertainty for its future operations and cash flow. As a result, Changyou determined that it is unlikely for MoboTap to gain users and grow its online card and board games revenues in China, Changyou management performed an impairment test in the third quarter of 2017 using the discounted cash flow method, and impairment charges of \$86.9 million were recognized to reflect the fair value of the MoboTap business, of which an \$83.5 million impairment loss was recognized for goodwill and a \$3.4 million impairment loss was recognized for intangible assets.

9. TAXATION

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

PRC Corporate Income Tax

Principal Entities Qualified as HNTEs

The PRC Corporate Income Tax Law (the “CIT Law”) applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to High and New Technology Enterprises (“HNTEs”). Under this preferential tax treatment, HNTEs can enjoy an income tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of September 30, 2017, the following principal entities of the Sohu Group were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu’s Business

- Beijing Sohu New Momentum Information Technology Co., Ltd. (“Sohu New Momentum”). Sohu New Momentum qualified as an HNTE for the years 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.
- Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”). Sohu Internet qualified as an HNTE for the years 2015 to 2017, and will need to re-apply for HNTE qualification in 2018.
- Sohu Media and Guangzhou Qianjun Network Technology Co., Ltd (“Guangzhou Qianjun”). Sohu Media and Guangzhou Qianjun re-applied for HNTE qualification in August 2017 and May 2017, respectively. New Media’s re-application has been approved, and it is qualified as an HNTE for 2017 to 2019 and will need to re-apply for qualification in 2020. Pending approval of its re-application, Guangzhou Qianjun is entitled to continue to enjoy the beneficial tax rate as if it had already qualified as an HNTE for 2017.

For Sogou’s Business

- Beijing Sogou Information Service Co., Ltd. (“Sogou Information”). Sogou Information qualified as an HNTE for the years 2015 to 2017, and will need to re-apply for HNTE qualification in 2018.
- Beijing Sogou Technology Development Co., Ltd. (“Sogou Technology”). Sogou Technology re-applied for HNTE qualification in September 2017. Pending approval of its re-application, Sogou Technology is entitled to continue to enjoy the beneficial tax rate as if it had already qualified as an HNTE for 2017.
- Beijing Sogou Network Technology Co., Ltd. (“Sogou Network”). Sogou Network qualified as an HNTE for the years 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.

For Changyou’s Business

- Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”) and Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”). Gamease and AmazGame re-applied for HNTE qualification in August 2017 and October 2017, respectively. Pending approval of their re-applications, AmazGame and Gamease are entitled to continue to enjoy the beneficial tax rate as if they had already qualified as HNTEs for 2017.
- Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”). Gamespace qualified as HNTE for the years 2017 to 2019, and will need to re-apply for HNTE qualification in 2020.

Principal Entities Qualified as Software Enterprises and KNSEs

The CIT Law and its implementing regulations provide that a “Software Enterprise” is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a “Key National Software Enterprise” (a “KNSE”) is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities’ assessment each year as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise’s Software Enterprise/KNSE status.

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For Sohu's Business

- Sohu New Momentum. In the second quarter of 2017, Sohu New Momentum completed a self-assessment and filed required supporting documents to entitle it to the first year of an income tax rate reduction from 25% to 12.5% as a Software Enterprise for 2016, and will follow the same process in 2018 to entitle it to the second year of an income tax rate reduction from 25% to 12.5%.

For Sogou's Business

- Sogou Technology. In the second quarter of 2017, Sogou Technology completed a self-assessment and filed required supporting documents for KNSE status for 2016, and will follow the same process in 2018 for KNSE status for 2017.

For Changyou's Business

- AmazGame. In the second quarter of 2017, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2016, and will follow the same process in 2018 for KNSE status for 2017. In the third quarter of 2017, AmazeGame was qualified as a KNSE after the relevant government authorities' assessment and was entitled to a preferential income tax rate of 10% for 2016.
- Baina (Wuhan) Information Technology Co., Ltd. ("Wuhan Baina Information"). In the second quarter of 2017, Wuhan Baina Information completed a self-assessment and filed required supporting documents to entitle it to the first year of an income tax exemption as a Software Enterprise for 2016, and will follow the same process in 2018 to entitle it to the second year of an income tax exemption for 2017.

PRC Withholding Tax on Dividends

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

In order to fund the distribution of a dividend to shareholders of the Sohu Group's majority-owned subsidiary Changyou, Changyou's management determined to cause one of its PRC subsidiaries to declare and distribute a cash dividend of all of its stand-alone 2012 earnings and half of its stand-alone subsequent years' earnings to its direct overseas parent company, Changyou.com (HK) Limited ("Changyou HK"). As of September 30, 2017, Changyou had accrued deferred tax liabilities in the amount of \$29.5 million for PRC withholding tax.

With the exception of that dividend, the Sohu Group does not intend to have any of its PRC subsidiaries distribute any undistributed profits of such subsidiaries to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries for their PRC operations.

PRC Value-Added Tax

On May 1, 2016, transition from the imposition of PRC business tax ("Business Tax") to the imposition of value-added tax ("VAT") was expanded to all industries in China, and as a result all of the Sohu Group's revenues have been subject to VAT since that date. To record VAT payable, the Group adopted the net presentation method, which presents the difference between the output VAT (at a rate of 6%) and the available input VAT amount (at the rate applicable to the supplier).

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U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of up to 35%. To the extent that portions of its U.S. taxable income, such as Subpart F income or a dividend, are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may be able to claim foreign tax credits to offset its U.S. income tax liabilities. Any remaining liabilities are accrued in the Company's consolidated statements of comprehensive income and estimated tax payments are made when required by U.S. law.

Uncertain Tax Positions

The Sohu Group is subject to various taxes in different jurisdictions, primarily the U.S. and the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to the Group's income and transactions. In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

The Group did not have any significant penalties or significant interest associated with tax positions for the three and nine months ended September 30, 2017, nor did the Group have any significant unrecognized uncertain tax positions for the three and nine months ended September 30, 2017.

10. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2017 (in thousands):

As of September 30,	2017	2018	2019	2020	2021	Thereafter	Total Payments Required
Purchase of cinema advertisement slot rights	15,795	78,225	43,686	20,124	2,858	79	160,767
Purchase of content and services – video	27,087	16,379	18,718	580	0	0	62,764
Purchase of bandwidth	26,827	13,771	1,261	1,103	322	0	43,284
Operating lease obligations	4,290	14,417	3,234	1,032	60	10	23,043
Expenditures for operating rights for licensed games with technological feasibility	529	19,154	0	0	0	0	19,683
Purchase of content and services – others	5,766	2,483	298	59	27	0	8,633
Fees for operating rights for licensed games in development	1,362	1,182	0	0	0	0	2,544
Expenditures for rights to titles of games in development	259	1,233	0	0	0	0	1,492
Others	3,596	424	87	0	0	0	4,107
Total Payments Required	85,511	147,268	67,284	22,898	3,267	89	326,317

Litigation

The Sohu Group is a party to various litigation matters which it considers routine and incidental to its business. The Sohu Group records a liability when the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. The Sohu Group evaluates, on a regular basis, developments in litigation matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Management believes that the total liabilities to the Sohu Group that may arise as a result of currently pending legal proceedings will not have a material adverse effect on the Group's business, results of operations, financial condition and cash flows.

PRC Law and Regulations

The Chinese market in which the Sohu Group operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability to operate an Internet business and to conduct brand advertising, search and search-related advertising, online game, 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. The Sohu Group's legal structure and scope of operations in China could be subject to restrictions, which could result in limits on its ability to conduct business in the PRC. Certain risks related to PRC law that could affect the Sohu Group's VIE structure are discussed in Note 11 - VIEs.

Regulatory risks also encompass interpretation by PRC tax authorities of current tax law, including the applicability of certain preferential tax treatments.

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

11. VIES

Background

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

VIEs Consolidated within the Sohu Group

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

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

Under contractual agreements with the Sohu Group, Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs are required to transfer their ownership in these entities to the Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Group at any time as requested by the Group to repay the loans outstanding. All voting rights of the consolidated VIEs are assigned to the Sohu Group, and the Group has the right to designate all directors and senior management personnel of the consolidated VIEs, and also has the obligation to absorb losses of the consolidated VIEs. Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs have pledged their shares in the consolidated VIEs as collateral for the loans. As of September 30, 2017, the aggregate amount of these loans was \$9.4 million.

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Under its contractual arrangements with the consolidated VIEs, the Sohu Group has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Group considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of September 30, 2017, the registered capital and PRC statutory reserves of the consolidated VIEs totaled \$79.9 million. As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the consolidated VIEs do not have recourse to the general credit of the Sohu Group for any of the liabilities of the consolidated VIEs. Currently there is no contractual arrangement that could require the Sohu Group to provide additional financial support to the consolidated VIEs. As the Sohu Group is conducting certain business in the PRC mainly through the consolidated VIEs, the Group may provide such support on a discretionary basis in the future, which could expose the Group to a loss.

The Sohu Group classified the consolidated VIEs within the Sohu Group as principal VIEs or immaterial VIEs based on certain criteria, such as the VIEs' total assets or revenues. The following is a summary of the principal VIEs within the Sohu Group:

Basic Information for Principal VIEs and Subsidiaries of Principal VIEs

For Sohu's Business

- **High Century**
Beijing Century High Tech Investment Co., Ltd. ("High Century") was incorporated in 2001. As of September 30, 2017, the registered capital of High Century was \$4.6 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.
- **Heng Da Yi Tong**
Beijing Heng Da Yi Tong Information Technology Co., Ltd. ("Heng Da Yi Tong") was incorporated in 2002. As of September 30, 2017, the registered capital of Heng Da Yi Tong was \$1.2 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.
- **Sohu Internet**
Sohu Internet was incorporated in 2003. As of September 30, 2017, the registered capital of Sohu Internet was \$1.6 million and High Century held a 100% interest in this entity.
- **Donglin**
Beijing Sohu Donglin Advertising Co., Ltd. ("Donglin") was incorporated in 2010. As of September 30, 2017, the registered capital of Donglin was \$1.5 million and Sohu Internet held a 100% interest in this entity.
- **Tianjin Jinhu**
Tianjin Jinhu Culture Development Co., Ltd. ("Tianjin Jinhu") was incorporated in 2011. In October, 2016, Ye Deng transferred its 50% equity interest in Tianjin Jinhu to Xiufeng Deng. As of September 30, 2017, the registered capital of Tianjin Jinhu was \$0.5 million and Xiufeng Deng and Xuemei Zhang each held a 50% interest in this entity.
- **Guangzhou Qianjun**
Guangzhou Qianjun was acquired in November 2014. As of September 30, 2017, the registered capital of Guangzhou Qianjun was \$3.3 million and Tianjin Jinhu held a 100% interest in this entity.
- **Focus Interactive**
Beijing Focus Interactive Information Service Co., Ltd. ("Focus Interactive") was incorporated in July 2014. As of September 30, 2017, the registered capital of Focus Interactive was \$1.6 million and Heng Da Yi Tong held 100% of the equity interests in this entity.

For Sogou's Business

- **Sogou Information**
Sogou Information was incorporated in 2005. As of September 30, 2017, the registered capital of Sogou Information was \$2.5 million and Xiaochuan Wang, Sogou's Chief Executive Officer, High Century and Tencent held 10%, 45% and 45% interests, respectively, in this entity.

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For Changyou's Business

- **Gamease**

Gamease was incorporated in 2007. As of September 30, 2017, the registered capital of Gamease was \$1.3 million and High Century held a 100% interest in this entity.
- **Guanyou Gamespace**

Beijing Guanyou Gamespace Digital Technology Co., Ltd. ("Guanyou Gamespace") was incorporated in 2010. As of September 30, 2017, the registered capital of Guanyou Gamespace was \$1.5 million and Beijing Changyou Star Digital Technology Co., Ltd ("Changyou Star") held a 100% interest in this entity.
- **Shanghai ICE**

Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE") was acquired by Changyou in 2010. As of September 30, 2017, the registered capital of Shanghai ICE was \$1.2 million and Gamease held a 100% interest in this entity.
- **Wuhan Baina Information**

Baina (Wuhan) Information Technology Co., Ltd. ("Wuhan Baina Information") was acquired by Gamease in July 2014. As of September 30, 2017, the registered capital of Wuhan Baina Information was \$3.0 million and Changyou Star and Yongzhi Yang, the former chief executive officer of MoboTap, held 60% and 40% interests, respectively, in this entity.

Financial Information

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

	As of	
	December 31, 2016	September 30, 2017
ASSETS:		
Cash and cash equivalents	\$ 94,859	\$ 55,414
Accounts receivable, net	72,151	97,153
Prepaid and other current assets	86,722	29,986
Assets held for sale	12,551	0
Intra-Group receivables due from the Company's subsidiaries	197,438	386,656
Total current assets	463,721	569,209
Long-term investments, net	17,472	30,240
Fixed assets, net	4,372	3,023
Intangible assets, net	14,545	12,405
Goodwill	35,161	36,989
Other non-current assets	4,052	2,871
Total assets	\$ 539,323	\$ 654,737
LIABILITIES:		
Accounts payable	\$ 15,824	\$ 56,945
Accrued liabilities	96,695	79,203
Receipts in advance and deferred revenue	44,797	48,307
Liabilities held for sale	3,232	0
Other current liabilities	111,775	96,975
Intra-Group payables due to the Company's subsidiaries	129,431	169,452
Total current liabilities	401,754	450,882
Long-term taxes payable	13,463	14,072
Deferred tax liabilities	1,273	3,954
Intra-Group payables due to the Company's subsidiaries	19,620	20,492
Total liabilities	\$ 436,110	\$ 489,400

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	Three months ended September 30,		Nine months ended September 30,	
	2016	2017	2016	2017
Net revenue	\$ 228,599	\$ 224,450	\$ 675,281	\$ 649,409
Net income/(loss)	\$ 5,338	\$ (2,693)	\$ 20,854	\$ 49,515

	Nine months ended September 30,	
	2016	2017
Net cash provided by /(used in) operating activities	\$ 20,306	\$ (52,043)
Net cash provided by /(used in) investing activities	1,061	(1,602)
Net cash used in financing activities	\$ 0	\$ (131)

Summary of Significant Agreements Currently in Effect

Agreements Between Subsidiaries, Consolidated VIEs and Nominee Shareholders

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

Loan and share pledge agreement between Sohu Focus (HK) Limited ("Focus HK") and the shareholders of Heng Da Yi Tong: The agreement provides for loans to the shareholders of Heng Da Yi Tong for them to make contributions to the registered capital of Heng Da Yi Tong in exchange for the equity interests in Heng Da Yi Tong, and the shareholders pledge those equity interests to Focus HK as security for the loans. The agreement includes powers of attorney that give Focus HK the power to appoint nominees to act on behalf of the shareholders of Heng Da Yi Tong in connection with all actions to be taken by Heng Da Yi Tong. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in Heng Da Yi Tong, which are held by the Sohu Group's legal department and may be completed and effected at Focus HK's election.

Loan and share pledge agreements between Sogou Technology and the shareholders of Sogou Information. The loan agreement provides for a loan to Xiaochuan Wang, who holds 10% of the equity interest in Sogou Information, to be used by him to make contributions to the registered capital of Sogou Information in exchange for his equity interest in Sogou Information. The loan is interest free and is repayable on demand, but Mr. Wang may repay the loan only by transferring to Sogou Technology his equity interest in Sogou Information. Under the pledge agreement, all of the shareholders of Sogou Information pledge their equity interests to Sogou Technology to secure the performance of their obligations under the various VIE-related agreements. If any shareholder of Sogou Information breaches any of his or its obligations under any VIE-related agreements, Sogou Technology is entitled to exercise its rights as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

Equity interest purchase right agreements between Sogou Technology, Sogou Information and the shareholders of Sogou Information. Pursuant to these agreements, Sogou Technology and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Sogou Information all or any part of their equity interests at the lowest purchase price permissible under PRC law.

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

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

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Loan agreements and equity pledge agreements between Fox Information Technology (Tianjin) Limited (“Video Tianjin”) and the shareholders of Tianjin Jinhu. The loan agreements provide for loans to the shareholders of Tianjin Jinhu for them to make contributions to the registered capital of Tianjin Jinhu in exchange for the equity interests in Tianjin Jinhu. Under the equity pledge agreements, the shareholders of Tianjin Jinhu pledge to Video Tianjin their equity interests in Tianjin Jinhu to secure the performance of their obligations under the loan agreements and Tianjin Jinhu’s obligations to Video Tianjin under their business agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to Video Tianjin their equity interests in Tianjin Jinhu.

Equity interest purchase right agreements between Video Tianjin, Tianjin Jinhu and the shareholders of Tianjin Jinhu. Pursuant to these agreements, Video Tianjin and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Tianjin Jinhu all or any part of their equity interests at the lowest purchase price permissible under PRC law.

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

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

Loan agreements and equity pledge agreements between AmazGame and the sole shareholder of Gamease and between Gamespace and the sole shareholder of Guanyou Gamespace. The loan agreements provide for loans to the respective shareholders of Gamease and Guanyou Gamespace for the shareholders to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for 100% of the equity interests in Gamease and Guanyou Gamespace. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, as the case may be, their equity interests in Gamease and Guanyou Gamespace. Under the equity pledge agreements, the respective shareholders of Gamease and Guanyou Gamespace pledge to AmazGame and Gamespace, their equity interests in Gamease and Guanyou Gamespace to secure the performance of their obligations under the loan agreements and Gamease’s and Guanyou Gamespace’s obligations to AmazGame and Gamespace under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Gamease’s or Guanyou Gamespace’s breach of any of its obligations under the various applicable VIE-related agreements will be treated as its shareholder’s breach of its obligations), including the equity pledge agreements, AmazGame and Gamespace are entitled to exercise their rights as the beneficiaries under the applicable equity pledge agreements, including all rights the respective shareholders have as shareholders of Gamease or Guanyou Gamespace.

Equity interest purchase right agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time if and when it is legal to do so under PRC law, to purchase from the respective shareholders of Gamease and Guanyou Gamespace all or any part of their equity interests in Gamease and Guanyou Gamespace at a purchase price equal to their initial contributions to the registered capital of Gamease and Guanyou Gamespace.

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

Business operation agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace to control the actions of Gamease and Guanyou Gamespace, as the case may be, and the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of 10 years.

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Share pledge agreement among Baina Zhiyuan (Beijing) Technology Co., Ltd. (“Beijing Baina Technology”), Wuhan Baina Information and the shareholders of Wuhan Baina Information, which are Gamease and Yongzhi Yang, pursuant to which the shareholders pledged to Beijing Baina Technology their equity interests in Wuhan Baina Information to secure the performance of their obligations and Wuhan Baina Information’s obligations under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Wuhan Baina Information’s breach of any of its obligations under the various VIE-related agreements will be treated as the shareholders’ breach of their obligations), including the share pledge agreement, Beijing Baina Technology is entitled to exercise its rights as the beneficiary under the share pledge agreement, including all rights of the shareholders as shareholders of Wuhan Baina Information.

Call option agreement among Beijing Baina Technology, Wuhan Baina Information, Changyou Star and Yongzhi Yang. This agreement provides to Beijing Baina Technology and any third party designated by Beijing Baina Technology the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from Changyou Star and Yongzhi Yang all or any part of their shares in Wuhan Baina Information or to purchase from Wuhan Baina Information all or part of its assets or business at the lower of RMB1.00 (approximately \$0.15) or the lowest purchase price permissible under PRC law.

Business Operation Agreement among Beijing Baina Technology, Wuhan Baina Information, Changyou Star and Yongzhi Yang. This agreement grants Beijing Baina Technology effective control of Wuhan Baina Information.

Business Arrangements Between Subsidiaries and Consolidated VIEs

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

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

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

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

Services and maintenance agreements between AmazGame and Gamease between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. Each agreement terminates only when AmazGame or Gamespace, as the case may be, is dissolved.

Services agreement between Beijing Baina Technology and Wuhan Baina Information. Beijing Baina Technology agrees to provide Wuhan Baina Information with technical services, business consulting, capital equipment lease, market consulting, integration of systems, research and development of products and maintenance of systems. Service fees are to be determined with reference to the specific services provided, based on a transfer pricing analysis.

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

VIE-Related Risks

It is possible that the Sohu Group's operation of certain of its operations and businesses through VIEs could be found by PRC authorities to be in violation of PRC law and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. While the Sohu Group's management considers the possibility of such a finding by PRC regulatory authorities under current law and regulations to be remote, on January 19, 2015, the Ministry of Commerce of the PRC, or (the "MOFCOM") released on its Website for public comment a proposed PRC law (the "Draft FIE Law") that appears to include VIEs within the scope of entities that could be considered to be foreign invested enterprises (or "FIEs") that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIE Law introduces the concept of "actual control" for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIE Law includes control through contractual arrangements within the definition of "actual control." If the Draft FIE Law is passed by the People's Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to reach the Sohu Group's VIE arrangements, and as a result the Sohu Group's VIEs could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of foreign invested enterprises entities where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The Draft FIE Law is silent as to what type of enforcement action might be taken against existing VIEs that operate in restricted or prohibited industries and are not controlled by entities organized under PRC law or individuals who are PRC citizens. If a finding were made by PRC authorities, under existing law and regulations or under the Draft FIE Law if it becomes effective, that the Sohu Group's operation of certain of its operations and businesses through VIEs is prohibited, regulatory authorities with jurisdiction over the licensing and operation of such operations and businesses would have broad discretion in dealing with such a violation, including levying fines, confiscating the Sohu Group's income, revoking the business or operating licenses of the affected businesses, requiring the Sohu Group to restructure its ownership structure or operations, or requiring the Sohu Group to discontinue all or any portion of its operations. Any of these actions could cause significant disruption to the Sohu Group's business operations, and have a severe adverse impact on the Sohu Group's cash flows, financial position and operating performance.

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

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

12. SOHU.COM INC. SHAREHOLDERS' EQUITY

Takeover Defense

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

Treasury Stock

Treasury stock consists of shares repurchased by Sohu.com Inc. that are no longer outstanding and are held by Sohu.com Inc. Treasury stock is accounted for under the cost method. For the nine months ended September 30, 2017 and 2016, the Company did not repurchase any shares of its common stock.

Stock Incentive Plans

Sohu (excluding Sohu Video), Sogou, Changyou, and Sohu Video have incentive plans for the granting of share-based awards, including options and restricted share units, to their directors, management and other key employees.

Sohu.com Inc. Share-based Awards

Sohu's 2010 Stock Incentive Plan

On July 2, 2010, the Company's shareholders adopted the Sohu 2010 Stock Incentive Plan, which provides for the issuance of up to 1,500,000 shares of common stock, including stock issued pursuant to the vesting and settlement of restricted stock units and pursuant to the exercise of stock options. The maximum term of any stock right granted under the Sohu 2010 Stock Incentive Plan is ten years from the grant date. The Sohu 2010 Stock Incentive Plan will expire on July 1, 2020. As of September 30, 2017, 587,280 shares were available for grant under the Sohu 2010 Stock Incentive Plan.

Summary of Stock Option Activity

In February 2015, May 2016 and September 2017, the Company's Board of Directors approved contractual grants to members of the Company's management and key employees of options for the purchase of an aggregate of 1,068,000, 13,000 and 32,000 shares of common stock, respectively, with nominal exercise prices of \$0.001. These stock options vest and become exercisable in four equal installments over a period of four years, with each installment vesting upon the satisfaction of a service period requirement and certain subjective performance targets. These stock options are substantially similar to restricted stock units except for the nominal exercise price, which would be zero for restricted stock units.

Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established for these stock options until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. To determine the fair value of these stock options, the public market price of the underlying shares at each reporting date is used and a binomial valuation model is applied.

On February 7, 2016, February 7, 2017, and May 1, 2017, 253,250, 175,000, and 3,250, respectively, of these stock options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets was reached between the Company and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense for these granted stock options has been adjusted and fixed based on their aggregate fair value at the grant date of \$10.8 million, \$7.0 million, and \$0.1 million, respectively.

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A summary of stock option activity under the Sohu 2010 Stock Incentive Plan as of and for the nine months ended September 30, 2017 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding at January 1, 2017	193	\$		\$
Granted	178	0.001		
Exercised	(132)	0.001		
Forfeited or expired	0			
Outstanding at September 30, 2017	<u>239</u>	0.001	7.36	13,416
Vested at September 30, 2017	<u>239</u>	0.001	7.36	13,416
Exercisable at September 30, 2017	<u>239</u>	0.001	7.36	13,416

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Sohu's closing stock price of \$56.16 on September 30, 2017 and the nominal exercise prices of the stock options.

For the three and nine months ended September 30, 2017, total share-based compensation expense recognized for these stock options was \$4.0 million and \$3.9 million, respectively. For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for these stock options was \$5.3 million and \$3.6 million, respectively.

Summary of Restricted Stock Unit Activity

A summary of restricted stock unit activity under the Sohu 2010 Stock Incentive Plan as of and for the nine months ended September 30, 2017 is presented below:

Restricted Stock Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2017	11	\$ 70.24
Granted	0	
Vested	(2)	64.00
Forfeited	(5)	71.85
Unvested at September 30, 2017	<u>4</u>	81.56
Expected to vest after September 30, 2017	<u>3</u>	81.56

For the three and nine months ended September 30, 2017, total share-based compensation expense recognized for restricted stock units was \$82,828 and \$227,791, respectively. For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for restricted stock units was \$0.4 million and \$1.1 million, respectively.

As of September 30, 2017, there was negative \$2.0 million of unrecognized compensation expense related to unvested restricted stock units. The expense is expected to be recognized over a weighted average period of 0.25 years. The total fair value on their respective vesting dates of restricted stock units that vested during the three and nine months ended September 30, 2017 was nil and \$86,078, respectively. The total fair value on their respective vesting dates of restricted stock units that vested during the three and nine months ended September 30, 2016 was \$0.2 million and \$0.5 million, respectively.

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Sogou Inc. Share-based Awards

Sogou 2010 Share Incentive Plan

Sogou adopted a share incentive plan on October 20, 2010. The number of Sogou ordinary shares issuable under the plan was 41,500,000 after an amendment that was effective August 22, 2014 (as amended, the “Sogou 2010 Share Incentive Plan”). Awards of share rights may be granted under the Sogou 2010 Share Incentive Plan to management and employees of Sogou and of any present or future parents or subsidiaries or VIEs of Sogou. The maximum term of any share right granted under the Sogou 2010 Share Incentive Plan is ten years from the grant date. The Sogou 2010 Share Incentive Plan will expire on October 19, 2020. As of September 30, 2017, Sogou had contractually granted options for the purchase of 38,048,189 Sogou ordinary shares under the 2010 Sogou Share Incentive Plan.

Of the contractually-granted Sogou share options for the purchase of 38,048,189 Sogou ordinary shares, options for the purchase of 30,828,189 Sogou ordinary shares vest and become exercisable upon a service period requirement being met, as well as Sogou’s achievement of performance targets for the corresponding period. Subject to achievement of the applicable performance targets, of these Sogou share options for the purchase of 30,828,189 Sogou ordinary shares, options for the purchase of 29,727,589 Sogou ordinary shares vest and become exercisable in four equal installments and options for the purchase of 1,100,600 Sogou ordinary shares vest and become exercisable in two to four installments over varying periods. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance target has been set. As of September 30, 2017, Sogou had granted options for the purchase of 25,232,745 Sogou ordinary shares under the 2010 Sogou Share Incentive Plan. As of September 30, 2017, options for the purchase of 25,167,933 Sogou ordinary shares had become vested and exercisable because both the service period and the performance requirements had been met, and of such vested options, options for the purchase of 25,163,373 Sogou ordinary shares had been exercised.

Of the contractually granted Sogou share options, options for the purchase of 7,220,000 Sogou ordinary shares vest and become exercisable subject to the completion of an IPO. Of the granted options for the purchase of 7,220,000 ordinary shares, option for the purchase of 7,200,000 ordinary Shares vest and become exercisable in five equal installments, with (i) the first installment vesting upon Sogou’s IPO and the expiration of all underwriters’ lockup periods applicable to Sogou’s IPO, and (ii) each of the four subsequent installments vesting on the first, second, third and fourth anniversary dates, respectively, of the closing of Sogou’s IPO. The remaining options for the purchase of 20,000 ordinary Shares vest and become exercisable on the later of (i) the first anniversary of the grant date or (ii) the expiration date of all underwriters’ lockup periods applicable to an IPO, if the company has completed the IPO on or prior to the first anniversary of the grant date. The completion of an IPO is considered to be a performance condition of the awards. An IPO is not considered to be probable until it is completed. Under ASC 718, compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these Sogou share options until the completion of an IPO, and hence no share-based compensation expense was recognized for the three and nine months ended September 30, 2017 for the options for the purchase of 7,220,000 Sogou ordinary shares that are subject to vesting upon completion of Sogou’s IPO.

As of September 30, 2017, for purposes of recognition of share-based compensation expense, Sogou had granted Sogou share options for the purchase of 32,452,745 Sogou ordinary shares, of which options for the purchase of 7,289,372 Sogou ordinary shares were outstanding. A summary of Sogou share option activity under the Sogou 2010 Share Incentive Plan as of and for the nine months ended September 30, 2017 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	9,451	\$ 0.476	6.31	
Granted	20	0.001		
Exercised	(2,168)	0.001		
Forfeited or expired	(14)	0.001		
Outstanding at September 30, 2017	7,289	0.617	5.36	3,145
Vested at September 30, 2017 and expected to vest thereafter	69		6.96	209
Exercisable at September 30, 2017	5		4.99	3

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For the three and nine months ended September 30, 2017, total share-based compensation expense recognized for share options under the Sogou 2010 Share Incentive Plan was \$48,133 and \$0.7 million, respectively. For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for share options under the Sogou 2010 Share Incentive Plan was \$0.2 million and \$1.4 million, respectively.

As of September 30, 2017, there was \$3.0 million of unrecognized compensation expense related to the unvested Sogou share options granted under the Sogou 2010 Share Incentive Plan. An expense of \$14,095 is expected to be recognized over a weighted average period of 0.1 years.

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

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

Assumptions Adopted	
Average risk-free interest rate	2.14%~2.92%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	0%~12%
Weighted average expected option life	9
Volatility rate	47%
Dividend yield	0%
Fair value	3.18~9.99

Sogou estimated the risk-free rate based on the market yields of U.S. Treasury securities with an estimated country-risk differential as of the valuation date. An exercise multiple was estimated as the ratio of the fair value of the Sogou ordinary shares over the exercise price as of the time the Sogou share option is exercised, based on consideration of research studies regarding exercise patterns based on historical statistical data. In Sogou's valuation analysis, a multiple of two was applied for employees and a multiple of three was applied for management. Sogou estimated the forfeiture rate to be 0% or 1% for the Sogou share options granted to Sogou management and 12% for the Sogou share options granted to Sogou employees. As there is no trading market for Sogou's ordinary shares, the expected volatility at the valuation date was estimated based on the historical volatility of comparable companies for the period before the grant date with length commensurate with the expected term of the Sogou share options. Sogou has no history or expectation of paying dividends on its ordinary shares. Accordingly, the dividend yield was estimated to be 0%.

Sohu Management Sogou Share Option Arrangement

Under an arrangement (the "Sohu Management Sogou Share Option Arrangement") that was approved by the boards of directors of Sohu and Sogou in March 2011, Sohu has the right to provide to members of Sohu's Board of Directors, management and key employees of the Sohu Group the opportunity to purchase from Sohu up to 12,000,000 ordinary shares of Sogou at a fixed exercise price of \$0.625 or \$0.001 per share. Of these 12,000,000 ordinary shares, 8,800,000 are Sogou ordinary shares previously held by Sohu and 3,200,000 are Sogou ordinary shares that were newly-issued on April 14, 2011 by Sogou to Sohu at a price of \$0.625 per share, or a total of \$2.0 million. As of September 30, 2017, Sohu had contractually granted options for the purchase of 8,305,000 Sogou ordinary shares to members of Sohu's Board of Directors, management and other key employees under the Sohu Management Sogou Share Option Arrangement.

Of the contractually-granted Sogou share options for the purchase of 8,305,000 Sogou ordinary shares, options for the purchase of 8,290,000 Sogou ordinary shares vest and become exercisable in four equal installments, with each installment vesting upon a service period requirement for Sohu's management and key employees being met, as well as Sogou's achievement of performance targets for the corresponding period. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance target has been set. As of September 30, 2017, Sohu had granted Sogou share options for the purchase of 8,290,000 Sogou ordinary shares under the Sohu Management Sogou Share Option Arrangement. As of September 30, 2017, options for the purchase of 8,290,000 Sogou ordinary shares had become vested and exercisable because both the service period and the performance requirements had been met, and vested options for the purchase of 8,290,000 Sogou ordinary shares had been exercised.

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Options for the purchase of 15,000 Sogou ordinary shares that were granted to members of Sohu's Board of Directors in 2015 vested and became exercisable in 2015, as the service period requirement for vesting had been met.

In March 2013, Sohu granted options for the purchase of 2,400,000 Sogou ordinary shares to the then President and Chief Financial Officer of the Sohu Group. These options were to vest and become exercisable in five equal installments, with (i) the first installment vesting upon Sogou's IPO and the expiration of all underwriters' lockup periods applicable to the IPO, and (ii) each of the four subsequent installments vesting on the first, second, third and fourth anniversary dates, respectively, of the completion of Sogou's IPO. All installments of the Sogou share options for the purchase of 2,400,000 Sogou ordinary shares that were subject to vesting upon the completion of Sogou's IPO were considered granted upon the issuance of the options. The completion of a firm commitment IPO is considered to be a performance condition of the awards. An IPO event is not considered to be probable until it is completed. Under ASC 718, compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense was to be recognized related to these Sogou share options until the completion of an IPO. Pursuant to the option agreements, these options for the purchase of 2,400,000 shares were forfeited upon the resignation of the former President and Chief Financial Officer in July 2016.

As of September 30, 2017, for purposes of recognition of share-based compensation expense, Sohu had granted options for the purchase of 8,305,000 Sogou ordinary shares, of which options for the purchase of 12,000 Sogou ordinary shares were outstanding. A summary of Sogou share option activity under the Sohu Management Sogou Share Option Arrangement as of and for the nine months ended September 30, 2017 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	70	\$ 0.517	6.79	
Granted	—			
Exercised	(58)	0.625		
Forfeited or expired	—			
Outstanding at September 30, 2017	12	0.001	7.64	84
Vested at September 30, 2017	12	0.001	7.64	84
Exercisable at September 30, 2017	12	0.001	7.64	84

For both the three and the nine months ended September 30, 2017, total share-based compensation expense recognized for share options under the Sohu Management Sogou Share Option Arrangement was nil. For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for share options under the Sohu Management Sogou Share Option Arrangement was \$3,094 and \$0.3 million, respectively.

As of September 30, 2017, there was no unrecognized compensation expense related to unvested Sogou share options.

The method used to determine the fair value of Sogou share options granted to members of Sohu's Board of Directors, management and other employees was the same as the method used for the Sogou share options granted to Sogou's management and key employees as described above. There was no share-based compensation expense recognized under the Sohu Management Sogou Share Option Arrangement for the three and nine months ended September 30, 2017.

Sogou Share Repurchase Transaction

In January 2017, Sogou repurchased 720,000 of its Class A Ordinary Shares from the former President and Chief Financial Officer of the Sohu Group for an aggregate price of \$7.2 million. Approximately \$4.0 million incremental share-based compensation expense associated with the repurchase, which was made pursuant to letter agreements entered into in 2016 between the Sohu Group and the former President and Chief Financial Officer of the Sohu Group in connection with her resignation, which amount is equal to the excess of the repurchase price over the fair value of Sogou Class A Ordinary Shares as of the repurchase date, related to events occurring in 2016 and was recorded in the Sohu Group's statements of comprehensive income for the first quarter of 2017. The Group assessed the impact and determined that it was not material to the quarter ended December 31, 2016, the year ended December 31, 2016, or the nine months ended September 30, 2017.

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Option Modification

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

As of September 30, 2017, 10,327,500 Sogou ordinary shares that were purchased upon the early exercise of options granted under the Sogou 2010 Share Incentive Plan remained unvested in accordance with the vesting requirements under the original option agreements. All Sogou ordinary shares purchased upon such early-exercise are included in the disclosures under the heading “Sogou 2010 Share Incentive Plan” and “Sohu Management Sogou Share Option Arrangement” above.

Tencent Share-based Awards Granted to Employees Who Transferred to Sogou with the Soso Search and Search-related Business

Certain persons who became Sogou employees when Tencent’s Soso search and search-related businesses were transferred to Sogou on September 16, 2013 had been granted restricted share units under Tencent’s share award arrangements prior to the transfer of the businesses. Following the transfer of the businesses, these Tencent restricted share units will continue to vest under the original Tencent share award arrangements provided the transferred employees continue to be employed by Sogou during the requisite service period. After the transfer of the Soso search and search-related businesses to Sogou, Sogou applied the guidance in ASC 505-50 to measure the related compensation expense, based on the then-current fair value at each reporting date, which is deemed to have been incurred by Tencent as an investor on Sogou’s behalf. To determine the then-current fair value of the Tencent restricted share units granted to these employees, the public market price of the underlying shares at each reporting date was applied.

For the three and nine months ended September 30, 2017, share-based compensation expense of \$0.3 million and \$0.6 million, respectively, related to these Tencent restricted share units was recognized in the Group’s consolidated statements of comprehensive income. For the three and nine months ended September 30, 2016, share-based compensation expense of negative \$38,458 and \$0.8 million, respectively, related to these Tencent restricted share units was recognized in the Group’s consolidated statements of comprehensive income. As of September 30, 2017, there was \$0.1 million of unrecognized compensation expense related to these unvested Tencent restricted share units. This amount is expected to be recognized over a weighted average period of 0.76 years.

Changyou.com Limited Share-based Awards

Changyou’s 2008 Share Incentive Plan

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

Prior to the completion of Changyou’s IPO, Changyou had granted under the Changyou 2008 Share Incentive Plan 15,000,000 Changyou ordinary shares to its former chief executive officer Tao Wang, through Prominence Investments Ltd., which is an entity that may be deemed under applicable rules of the U.S. Securities and Exchange Commission (the “SEC”) to be beneficially owned by Tao Wang. Through September 30, 2017, Changyou had also granted under the Changyou 2008 Share Incentive Plan restricted share units, settleable upon vesting by the issuance of an aggregate of 4,614,098 Changyou ordinary shares, to certain members of its management other than Tao Wang, and certain other Changyou employees.

Share-based Awards granted before Changyou’s IPO

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

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Share-based Awards granted after Changyou's IPO

Through September 30, 2017, in addition to the share-based awards granted before Changyou's IPO, Changyou had granted restricted share units, settleable upon vesting with the issuance of an aggregate of 1,581,226 Changyou ordinary shares, to certain members of its management other than Tao Wang and to certain of its other employees. These Changyou restricted share units are subject to vesting over a four-year period commencing on their grant dates. Share-based compensation expense for such Changyou restricted share units is recognized on an accelerated basis over the requisite service period. The fair value of Changyou restricted share units was determined based on the market price of Changyou's ADSs on the grant date.

A summary of activity for these restricted share units as of and for the nine months ended September 30, 2017 is presented below:

Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2017	10	\$ 14.25
Granted	0	
Vested	0	
Forfeited	0	
Unvested at September 30, 2017	10	14.25
Expected to vest after September 30, 2017	10	14.25

For the three and nine months ended September 30, 2017, total share-based compensation expense recognized for the above restricted share units was \$9,000 and \$27,000, respectively. For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for the above restricted share units was \$22,000 and \$66,000, respectively.

As of September 30, 2017, there was \$3,000 of unrecognized compensation expense related to restricted share units that were unvested. The expense is expected to be recognized over a weighted average period of 0.25 years. No restricted share units vested during the three and nine months ended September 30, 2017. The total fair value of these restricted share units that vested during the three and nine months ended September 30, 2016 was both nil.

Changyou 2014 Share Incentive Plan

On June 27, 2014, Changyou reserved 2,000,000 of its Class A ordinary shares under the Changyou.com Limited 2014 Share Incentive Plan (the "Changyou 2014 Share Incentive Plan") for the purpose of making share incentive awards to certain members of its management and key employees. On November 2, 2014, the number of Class A ordinary shares reserved under the Changyou 2014 Share Incentive Plan increased from 2,000,000 to 6,000,000. The maximum term of any share right granted under the Changyou 2014 Share Incentive Plan is ten years from the grant date. The Changyou 2014 Share Incentive Plan will expire in June 2024. As of September 30, 2017, 2,962,000 shares were available for grant under the Changyou 2014 Share Incentive Plan.

Summary of Share Option Activity

On November 2, 2014, Changyou approved the contractual grant of an aggregate of 2,416,000 Class A restricted share units to certain members of its management and certain other employees. On February 16, 2015, Changyou's Board of Directors approved the conversion of 2,400,000 of these Class A restricted share units into options for the purchase of Class A ordinary shares at an exercise price of \$0.01. On June 1, 2015, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 1,998,000 Class A ordinary shares to certain members of its management and certain other employees at an exercise price of \$0.01. On July 28, 2016, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 100,000 Class A ordinary shares to certain member of its management at an exercise price of \$0.01. These Changyou share options vest in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and the achievement of certain subjective performance targets. These Changyou share options are substantially similar to restricted share units except for the nominal exercise price, which would be zero for restricted share units.

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Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. To determine the fair value of these Changyou share options, the public market price of the underlying Changyou Class A ordinary shares at each reporting date is used and a binomial valuation model is applied.

As of September 30, 2017, 1,549,000 of these Changyou share options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets had been reached between Changyou and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense for these granted share options has been adjusted and fixed based on their aggregate fair value at the grant date of \$20.0 million.

A summary of share option activity under the Changyou 2014 Share Incentive Plan as of and for the nine months ended September 30, 2017 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, 2017	852	\$ 0.01	7.93	\$ 9,032
Granted	320	0.01		
Exercised	(650)	0.01		
Forfeited or expired	0			
Outstanding at September 30, 2017	522	0.01	7.43	10,333
Vested at September 30, 2017	522	0.01		10,333
Exercisable at September 30, 2017	522	0.01		

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Changyou's closing price of \$39.61 per ADS, or \$19.81 per Class A ordinary share, on September 30, 2017 and the nominal exercise price of share option.

For the three and nine months ended September 30, 2017, share-based compensation expense recognized for these share options under the Changyou 2014 Share Incentive Plan was \$2.2 million and \$17.2 million, respectively. For the three and nine months ended September 30, 2016, share-based compensation expense recognized for these share options under the Changyou 2014 Share Incentive Plan was \$7.2 million and \$9.3 million, respectively.

Sohu Video Share-based Awards

On January 4, 2012, Sohu Video adopted the Video 2011 Share Incentive Plan, under which 25,000,000 ordinary shares of Sohu Video are reserved for the purpose of making share incentive awards to management and key employees of Sohu Video and to Sohu management. The maximum term of any share incentive award granted under the Video 2011 Share Incentive Plan is ten years from the grant date. The Video 2011 Share Incentive Plan will expire on January 3, 2021. As of September 30, 2017, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made and were subject to vesting in four equal installments, with each installment vesting upon a service period requirement being met, as well as Sohu Video's achievement of performance targets for the corresponding period. For purposes of ASC 718-10-25, as of September 30, 2017, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. As of September 30, 2017, options for the purchase of 4,972,800 Sohu Video ordinary shares were vested.

For the three and nine months ended September 30, 2017, total share-based compensation expense recognized for vested options under the Video 2011 Share Incentive Plan was negative \$50,000 and negative \$149,000, respectively. For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for vested options under the Video 2011 Share Incentive Plan was \$149,000 and negative \$448,000, respectively.

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The fair value as of September 30, 2017 of the Sohu Video options contractually granted to management and key employees of Sohu Video and to Sohu management was estimated on the reporting date using the BP Model, with the following assumptions used:

Assumptions Adopted	
Average risk-free interest rate	2.54%
Exercise multiple	2.8
Expected forfeiture rate (post-vesting)	14%
Weighted average expected option life	4.3
Volatility rate	41.2%
Dividend yield	0.00%
Fair value	0.67

13. NONCONTROLLING INTEREST

The noncontrolling interests in the Sohu Group's consolidated financial statements primarily consist of noncontrolling interests for Sogou and Changyou.

Noncontrolling Interest in the Consolidated Balance Sheets

As of December 31, 2016 and September 30, 2017, noncontrolling interest in the consolidated balance sheets was \$564.2 million and \$649.9 million, respectively.

	As of	
	December 31, 2016	September 30, 2017
Sogou	\$ 165,584	\$ 223,609
Changyou	398,631	426,137
Other	0	109
Total	<u>\$ 564,215</u>	<u>\$ 649,855</u>

Noncontrolling Interest of Sogou

As of September 30, 2017 and December 31, 2016, noncontrolling interest of Sogou of \$223.6 million and \$165.6 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing Sogou's cumulative results of operations attributable to shareholders other than Sohu.com Inc., and reflecting the reclassification of Sogou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest, the investments of shareholders other than Sohu.com Inc. in Preferred Shares and Ordinary Shares of Sogou, the repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders in March 2014 and September 2015, and Sogou's repurchase of Class A Ordinary Shares from noncontrolling shareholders in June 2014 and January 2017.

Noncontrolling Interest of Changyou

As of September 30, 2017 and December 31, 2016, noncontrolling interest of Changyou of \$426.1 million and \$398.6 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing a 32% and a 31% economic interest in Changyou's net assets held by shareholders other than Sohu.com Inc., and reflected the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest.

Noncontrolling Interest in the Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2017, net income attributable to the noncontrolling interest in the consolidated statements of comprehensive income was \$1.9 million and \$60.0 million, respectively. For the three and nine months ended September 30, 2016, net income attributable to the noncontrolling interest in the consolidated statements of comprehensive income was \$32.8 million and \$80.2 million, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Sogou	\$20,283	\$ 31,166	\$46,383	\$63,252
Changyou	12,492	(29,190)	33,855	(3,204)
Other	0	(37)	0	(83)
Total	<u>\$32,775</u>	<u>\$ 1,939</u>	<u>\$80,238</u>	<u>\$59,965</u>

Noncontrolling Interest of Sogou

For the three months ended September 30, 2017 and 2016, net income of \$31.2 million and \$20.3 million, respectively, attributable to the noncontrolling interest of Sogou was recognized in the Sohu Group's consolidated statements of comprehensive income, representing Sogou's net income attributable to shareholders other than Sohu.com Inc.

Noncontrolling Interest of Changyou

For the three months ended September 30, 2017 and 2016, net loss of \$29.2 million and net income \$12.5 million, respectively, attributable to the noncontrolling interest of Changyou, was recognized in the Sohu Group's consolidated statements of comprehensive income, representing a 32% and a 31% economic interest in Changyou attributable to shareholders other than Sohu.com Inc.

14. NET INCOME /(LOSS) PER SHARE

Basic net income /(loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income /(loss) per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income /(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income /(loss) per share. For the three and nine months ended September 30, 2017, 247,000 and 273,000, respectively, common shares potentially issuable upon the exercise or settlement of share-based awards using the treasury stock method were anti-dilutive and excluded from the denominator for calculation of diluted net loss per share. For the three and nine months ended September 30, 2016, 214,000 and 241,000, respectively, common shares potentially issuable upon the exercise or settlement of share-based awards using the treasury stock method were anti-dilutive and excluded from the denominator for calculation of diluted net loss per share.

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

- (i) Sogou's net income /(loss) attributable to Sohu.com Inc. is determined using the percentage that the weighted average number of Sogou shares held by Sohu.com Inc. represents of the weighted average number of Sogou Preferred Shares and Ordinary Shares, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and is not determined by allocating Sogou's net income /(loss) to Sohu.com Inc. using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders discussed in Note 13 - Noncontrolling Interest.

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

For the three and nine months ended September 30, 2017, all of these Sogou shares and share options had an anti-dilutive effect, and therefore were excluded from the calculation of Sohu.com Inc.'s diluted net income/(loss) per share, and "incremental dilution from Sogou" in the table below was zero.

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

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

For the three months ended September 30, 2017, all of these Changyou restricted share units and share options had an anti-dilutive effect, and therefore were excluded in the calculation of Sohu.com Inc.'s diluted net income/(loss) per share, and "incremental dilution from Changyou" for the three months ended September 30, 2017 in the table below was zero.

For the nine months ended September 30, 2017, a portion of these Changyou restricted share units and share options had a dilutive effect, and therefore was included in the calculation of Sohu.com Inc.'s diluted net income/(loss) per share. This impact is presented as "incremental dilution from Changyou" for the nine months ended September 30, 2017 in the table below.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Numerator:				
Net loss attributable to Sohu.com Inc., basic	\$(74,814)	\$(103,960)	\$(158,124)	\$(260,391)
Effect of dilutive securities:				
Incremental dilution from Sogou	0	0	0	0
Incremental dilution from Changyou	(472)	0	(1,125)	(931)
Net loss attributable to Sohu.com Inc., diluted	<u>\$(75,286)</u>	<u>\$(103,960)</u>	<u>\$(159,249)</u>	<u>\$(261,322)</u>
Denominator:				
Weighted average basic shares of common stock outstanding	38,728	38,877	38,695	38,848
Effect of dilutive securities:				
Share options and restricted share units	0	0	0	0
Weighted average diluted common shares outstanding	<u>38,728</u>	<u>38,877</u>	<u>38,695</u>	<u>38,848</u>
Basic net loss per share attributable to Sohu.com Inc.	\$ (1.93)	\$ (2.67)	\$ (4.09)	\$ (6.70)
Diluted net loss per share attributable to Sohu.com Inc.	<u>\$ (1.94)</u>	<u>\$ (2.67)</u>	<u>\$ (4.12)</u>	<u>\$ (6.72)</u>

15. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Revenue from Contracts with Customers. In May 2014, the FASB issued *ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)."* This guidance supersedes current guidance on revenue recognition in Topic 605, "Revenue Recognition." In addition, there are disclosure requirements related to the nature, amount, timing, and uncertainty of revenue recognition. In August 2015, the FASB issued *ASU No. 2015-14* to defer the effective date of *ASU No. 2014-09* for all entities by one year. For public business entities that follow U.S. GAAP, the deferral results in the new revenue standard are being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for interim and annual periods beginning after December 15, 2016. The Sohu Group will apply the new revenue standard beginning January 1, 2018, and will not early adopt. The Sohu Group has set up an implementation team that is currently in the process of analyzing each of the Sohu Group's revenue streams in accordance with the new revenue standard to determine the impact on the Group's consolidated financial statements. The Sohu Group plans to continue the evaluation, analysis, and documentation of its adoption of *ASU 2014-09* (including those subsequently issued updates that clarify *ASU 2014-09*'s provisions) throughout 2017 as the Sohu Group works towards the implementation and finalizes its determination of the impact that the adoption will have on its consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities. On January 5, 2016, the FASB issued *ASU 2016-01 ("ASU 2016-01")*, Recognition and Measurement of Financial Assets and Financial Liabilities, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value, with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Leases. On February 25, 2016, the FASB issued *ASU No. 2016-02 ("ASU 2016-02")*, Leases. *ASU 2016-02* specifies the accounting for leases. For operating leases, *ASU 2016-02* requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. *ASU 2016-02* is effective for public companies for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Compensation – Stock Compensation. On March 30, 2016, the FASB issued *ASU 2016-09 ("ASU 2016-09")*, Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; (c) classification on the statement of cash flows; and (d) accounting for forfeitures of share-based payments. This guidance became effective for reporting periods beginning after December 15, 2016. The Group adopted this new guidance on January 1, 2017. The Sohu Group elected to continue to account for forfeitures by estimating expected forfeitures, and this standard does not have a material impact on the Group's consolidated financial statements.

Financial Instruments-Credit Losses. In June 2016, the FASB issued Accounting Standards Update ("*ASU*") *2016-13, Financial Instruments-Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Sohu Group is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued Accounting Standards Update ("*ASU*") *2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Sohu Group is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

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Statement of Cash Flows (Topic 230): Restricted Cash. In November 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim period within those fiscal years. Early adoption is permitted, including adoption in an interim period. The standard should be applied to each period presented using a retrospective transition method. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Business Combinations (Topic 805): Clarifying the Definition of a Business. In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard should be applied prospectively on or after the effective date. The Sohu Group will evaluate the impact of adopting this standard prospectively upon any transactions of acquisitions or disposals of assets or businesses.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, *“Simplifying the Test for Goodwill Impairment.”* The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

16. SUBSEQUENT EVENTS

As previously disclosed in Current Reports on Form 8-K filed by the Company with the SEC on October 13, 2017 and October 27, 2017, on October 13, 2017 Sogou filed with the SEC a registration statement on Form F-1 relating to a proposed IPO of American depositary shares (“ADSs”) representing Sogou Class A Ordinary Shares, and on October 27, 2017 Sogou filed with the SEC an amendment to the Form F-1 that included the number of ADSs proposed to be offered and the estimated price range for the proposed IPO. Sogou intends to apply to have the ADSs listed on the New York Stock Exchange under the symbol “SOGO.” The proposed offering of Sogou ADSs will only be made by means of a prospectus. The registration statement has not yet become effective. The ADSs may not be sold, nor may any offers to buy be accepted, prior to the time the registration statement becomes effective. Market conditions, adverse changes in Sogou’s business or prospects, or other factors could prevent Sogou from conducting and completing the proposed IPO.

On October 25, 2017, Sohu received from ICBC pursuant to the loan arrangements with ICBC RMB800.0 million (or approximately \$120.6 million) at an annual interest rate of 5.5%.

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

As used in this report, references to “us,” “we,” “our,” “our company,” “our Group,” the “Sohu Group,” the “Group,” and “Sohu.com” are to Sohu.com Inc. and, except where the context requires otherwise, our subsidiaries and variable interest entities (“VIEs”) Sohu.com Limited, Sohu.com (Hong Kong) Limited (“Sohu Hong Kong”), All Honest International Limited (“All Honest”), Sohu.com (Game) Limited (“Sohu Game”), Go2Map Inc., Sohu.com (Search) Limited (“Sohu Search”), Sogou Inc. (“Sogou”), Sogou (BVI) Limited (“Sogou BVI”), Sogou Hong Kong Limited (“Sogou HK”), Vast Creation Advertising Media Services Limited (“Vast Creation”), Sogou Technology Hong Kong Limited, Fox Video Investment Holding Limited (“Video Investment”), Fox Video Limited (“Sohu Video”), Fox Video (HK) Limited (“Video HK”), Focus Investment Holding Limited, Sohu Focus Limited, Sohu Focus (HK) Limited, Beijing Sohu New Era Information Technology Co., Ltd. (“Sohu Era”), Beijing Sohu Software Technology Co., Ltd., Beijing Sogou Technology Development Co., Ltd. (“Sogou Technology”), Beijing Sogou Network Technology Co., Ltd. (“Sogou Network”), Fox Information Technology (Tianjin) Limited (“Video Tianjin”), Beijing Sohu New Media Information Technology Co., Ltd. (“Sohu Media”), Beijing Sohu New Momentum Information Technology Co., Ltd. (“Sohu New Momentum”), Beijing Century High Tech Investment Co., Ltd. (“High Century”), Beijing Heng Da Yi Tong Information Technology Co., Ltd. (“Heng Da Yi Tong”, formerly known as Beijing Sohu Entertainment Culture Media Co., Ltd.), Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”), Beijing GoodFeel Technology Co., Ltd., Beijing Sogou Information Service Co., Ltd. (“Sogou Information”), Beijing 21 East Culture Development Co., Ltd., Beijing Sohu Donglin Advertising Co., Ltd. (“Donglin”), Beijing Pilot New Era Advertising Co., Ltd. (“Pilot New Era”), Beijing Focus Yiju Network Information Technology Co., Ltd., SohuPay Science and Technology Co., Ltd., Beijing Yi He Jia Xun Information Technology Co., Ltd., Tianjin Jinhua Culture Development Co., Ltd. (“Tianjin Jinhua”), Guangzhou Qianjun Network Technology Co., Ltd. (“Guangzhou Qianjun”), Beijing Modu Legendary Culture Media Co., Ltd., Shenzhen Shi Ji Guang Su Information Technology Co., Ltd., Chengdu Easyppay Technology Co., Ltd., Beijing Shi Ji Si Su Technology Co., Ltd., Tianjin Sogou Network Technology Co., Ltd., Chongqing Qogir Enterprise Management Consulting Co., Ltd., Beijing Focus Interactive Information Service Co., Ltd., Beijing Focus Xin Gan Xian Information Technology Co., Ltd., Beijing Focus Real Estate Agency Co., Ltd. and our independently-listed majority-owned subsidiary Changyou.com Limited (“Changyou”) as well as the following direct and indirect subsidiaries and VIEs of Changyou: Changyou.com HK Limited (“Changyou HK”) formerly known as TL Age Hong Kong Limited, Changyou.com Webgames (HK) Limited (“Changyou HK Webgames”), Changyou.com Gamepower (HK) Limited, ICE Entertainment (HK) Limited (“ICE HK”), Changyou.com Gamestar (HK) Limited, Changyou.com Korea Limited, Changyou.com India Private Limited, Changyou BILISIM HIZMETLERI TICARET LIMITED SIRKETI, Kylie Enterprises Limited, Mobogarden Enterprises Limited, Heroic Vision Holdings Limited, TalkTalk Limited, RaidCall (HK) Limited, 7Road.com Limited (“7Road”), 7Road.com HK Limited (“7Road HK”), Changyou.com (TH) Limited, PT. CHANGYOU TECHNOLOGY INDONESIA, Changyou Middle East FZ-LLC, Changyou.com Technology Brazil Desenvolvimento De Programas LTDA, Greative Entertainment Limited (formerly known as Greative Digital Limited), Glory Loop Limited (“Glory Loop”), MoboTap Inc. (“MoboTap”, a Cayman Islands company), MoboTap Inc. Limited (“MoboTap HK”), MoboTap Inc. (a Delaware corporation), TMobi Limited (formerly known as Muse Entertainment Limited), Mobo Information Technology Pte. Ltd., Changyou Mobo Glint Limited, Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”), Beijing Changyou Skyline Property Management Co. Ltd, Beijing Changyou Chuangxiang Software Technology Co., Ltd., Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”), ICE Information Technology (Shanghai) Co., Ltd. (“ICE Information”), Beijing Changyou RaidCall Internet Technology Co., Ltd. (“RaidCall”), Beijing Yang Fan Jing He Information Consulting Co., Ltd. (“Yang Fan Jing He”), Shanghai Jingmao Culture Communication Co., Ltd. (“Shanghai Jingmao”), Shanghai Hejin Data Consulting Co., Ltd., Beijing Changyou Jingmao Film & Culture Communication Co., Ltd. (“Beijing Jingmao”), Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”), Beijing Guanyou Gamespace Digital Technology Co., Ltd. (“Guanyou Gamespace”), Beijing Zhi Hui You Information Technology Co., Ltd., Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”), Shenzhen 7Road Network Technologies Co., Ltd. (“7Road Technology”), Beijing Changyou Star Digital Technology Co., Ltd. (“Changyou Star”), Beijing Changyou Creation Information Technology Co., Ltd. (formerly known as Beijing Changyou e-pay Co. Ltd.), Shenzhen Brilliant Imagination Technologies Co., Ltd. (“Brilliant Imagination”), Beijing Baina Information Technology Co., Ltd., Baina Zhiyuan (Beijing) Technology Co., Ltd. (“Beijing Baina Technology”), Baina Zhiyuan (Chengdu) Technology Co., Ltd., Chengdu Xingyu Technology Co., Ltd., Baina (Wuhan) Information Technology Co., Ltd. (“Wuhan Baina Information”), Wuhan Xingyu Technology Co., Ltd., Beijing Changyou Creative Technology Co., Ltd., BeiJing Changmica Culture Co., Ltd., and HongKong New Xinlang Electron Group Limited, 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, 2016 filed with the U.S. Securities and Exchange Commission (“SEC”) on February 27, 2017, as updated by Part II Item 1A of our quarterly report on Form 10 Q for the quarter ended June 30, 2017 and by Part II Item 1A of this report. Readers are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

Sohu.com Inc. (NASDAQ: SOHU), a Delaware corporation organized in 1996, is a leading Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices in the People's Republic of China (the "PRC" or "China"). Our businesses are conducted by Sohu.com Inc. and its subsidiaries and VIEs (collectively referred to as the "Sohu Group" or the "Group"). The Sohu Group consists of Sohu, which when referred to in this report, unless the context requires otherwise, excludes the businesses and the corresponding subsidiaries and VIEs of Sogou Inc. ("Sogou") and Changyou.com Limited ("Changyou"), Sogou and Changyou. Sogou and Changyou are indirect controlled subsidiaries of Sohu.com Inc. Sohu is a leading Chinese language online media content and services provider. Sogou is a leading online search and search-related services and mobile Internet products provider in China. Changyou is a leading online game developer and operator in China as measured by the popularity of its PC game Tian Long Ba Bu ("TLBB") as well as its mobile game Legacy TLBB, and engages primarily in the development, operation and licensing of online games for PCs and mobile devices. Most of our operations are conducted through our China-based subsidiaries and VIEs.

Factors and Trends Affecting our Business

With the accelerated shift in user activities from PCs to mobile devices and an increase in the number of Internet users, the use of various kinds of mobile Internet services continued to increase. At Sohu, we focused our efforts on developing a portfolio of leading mobile products across our business lines that we believed our users would like.

Smartphones have completely reshaped the online media business in China, as in-stream feeds have become a mainstream format through which users have become accustomed to receiving personalized information. During the first three quarters of 2017, the market for delivering services to smartphones has developed quickly, and competition has increased. We invested extensively in content and technology for Sohu Media Portal to continue to build it as a competitive online media platform. We continuously refined the design of our key product Sohu News APP, and introduced innovative features to meet users' appetites. In the third quarter of 2017, we improved the algorithm used by the recommendation engine of Sohu News APP to enhance its user experience. On the sales front, in the third quarter of 2017, large brand advertisers' performance remained soft, while the demand from small and medium enterprise ("SME") customers was resilient.

Online video services remained one of the most popular Internet applications, and continued to gain viewers from television stations. The video industry continued to be deeply competitive as major online platforms aggressively competed for popular content. The competition led to an escalation in the price of content, especially the prices of premium TV dramas. Since 2016, Sohu Video has been shifting our focus to the self-developed content category, which, in our view, will create long-lasting value to our platform. Leveraging our exclusive original content, we also actively explored opportunities with subscription services that we believe will become an important revenue source in addition to traditional advertising revenues. From the second quarter of 2017, Sohu Video has stopped chasing the costly domestic TV dramas that are scheduled to be released in 2018. We expect this decision will generate substantial cost savings and help improve the bottom-line results for Sohu Video in 2018.

For our search and search-related business, Sogou is one of the top players in the online search sector in China. In the third quarter of 2017, we continued to strengthen our competitive advantages in search from channel to content, leveraging the robust ecosystem we have built and shared with Tencent. Specially, Tencent began testing, on a trial basis and for purposes of assessment, the integration of Sogou Search into Weixin/WeChat, whereby its users can use Sogou Search as a general search function from within Weixin/WeChat to access information outside Weixin/WeChat. By the end of September 2017, Sogou's mobile search traffic had grown 38% from the end of September 2016. The revenues generated from our mobile auction-based pay-for-click services accounted for 83% of our total auction-based pay-for-click revenues. We also made solid progress in artificial intelligence, in particular with voice technology. As of September 30, 2017, daily use of voice input through Sogou Mobile Keyboard had increased by approximately 75% from a year ago.

For our online game business, PC games revenue remained stable in the quarter and mobile games revenue continued to grow, driven by the launch of Legacy TLBB. Management's top priority is to address the needs of core users and keep users entertained with continual upgrades of content and social functions. For the three months ended September 30, 2017, Changyou's PC games and mobile games had approximately 7.5 million Average Monthly Active Accounts and approximately 2.2 million Quarterly Aggregate Active Paying Accounts.

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Our Business

Through the operation of Sohu, Sogou and Changyou, we generate online advertising revenues (including brand advertising revenues and search and search-related advertising revenues), online games revenues and other revenues. Online advertising and online games are our core businesses. For the three months ended September 30, 2017, total revenues generated by Sohu, Sogou and Changyou were approximately \$516.1 million, including:

Sohu:

- \$68.8 million in brand advertising revenues, of which \$37.9 million was from Sohu Media Portal, \$18.9 million was from Sohu Video, and \$12.0 million was from Focus; and
- \$24.6 million in other revenues, mainly attributable to revenues from paid subscription services, sub-licensing of purchased video content to third parties, interactive broadcasting services, and content provided through the platforms of the three main telecommunications operators in China.

Total revenues generated by Sohu were \$93.4 million.

Sogou:

- \$225.4 million in search and search-related advertising revenues; and
- \$31.8 million in other revenues, attributable to Sogou's offering of Internet value-added services (or "IVAS"), primarily with respect to the operation of Web games and mobile games developed by third parties, and of other products and services, including smart hardware products.

Total revenues generated by Sogou were \$257.2 million.

Changyou:

- \$132.4 million in online game revenues;
- \$6.0 million in brand advertising revenues, mainly attributable to Changyou's 17173.com Website; and
- \$27.1 million in other revenues attributable to Changyou's cinema advertising business and IVAS business.

Total revenues generated by Changyou were \$165.5 million.

For the three months ended September 30, 2017, our total brand advertising revenues were \$74.8 million, total search and search-related advertising revenues were \$225.4 million, total online game revenues were \$132.4 million, and total other revenues were \$83.5 million.

Sohu's Business

Brand Advertising Business

Sohu's main business is the brand advertising business, which offers to users, over our matrices of Chinese language online media, various content, products and services across multiple Internet-enabled devices, such as PCs, mobile phones and tablets. The majority of our products and services are provided through Sohu Media Portal, Sohu Video and Focus.

- **Sohu Media Portal.** Sohu Media Portal is a leading online news and information provider in China. Sohu Media Portal provides users comprehensive content through www.sohu.com for PCs, the mobile phone application Sohu News APP and the mobile portal m.sohu.com;
- **Sohu Video.** Sohu Video is a leading online video content and service provider in China through tv.sohu.com for PCs and the mobile phone application Sohu Video APP; and
- **Focus.** Focus (www.focus.cn) is a leading online real estate information and services provider in China.

Revenues generated by the brand advertising business are classified as brand advertising revenues in our consolidated statements of comprehensive income.

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Other Sohu Business

Sohu also engages in the other business, which consists primarily of paid subscription services, sub-licensing of purchased video content to third parties, interactive broadcasting services, and content provided through the platforms of the three main telecommunications operators in China. Revenues generated by Sohu from the other business are classified as other revenues in our consolidated statements of comprehensive income.

Sogou's Business

Search and Search-related Business

The search and search-related business consists primarily of search and search-related advertising services offered by Sogou. Search and search-related advertising services enable advertisers' promotional links to be displayed on Sogou's search results pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. Sogou's advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. Our search and search-related business benefits from our collaboration with Tencent Holdings Limited ("Tencent"), which provides us access to traffic and content generated from the products and services provided by Tencent.

Revenues generated by the search and search-related business are classified as search and search-related advertising revenues in our consolidated statements of comprehensive income.

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services, including smart hardware products. Revenues generated by Sogou from the other business are classified as other revenues in our consolidated statements of comprehensive income.

Changyou's Business

Changyou's business lines consist of the online game business; the platform channel business, which consists primarily of online advertising and also includes IVAS; and the cinema advertising business.

Online Game Business

Changyou's online game business offers to game players (a) PC games, which are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used; (b) mobile games, which are played on mobile devices and require an Internet connection. Prior to the sale of Shenzhen 7Road in August 2015, Changyou's online games also included Web games, which are online games that are played through a Web browser with no local game software installation requirements. Following the sale of Shenzhen 7Road, Web games became an insignificant part of Changyou's online game business. All of Changyou's games are operated under the item-based revenue model, meaning that game players can play the games for free, but can choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. Revenues derived from the operation of online games are classified as online game revenues in our consolidated statements of comprehensive income.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website, one of the leading information portals in China, which provides news, electronic forums, online videos and other information services regarding online games to game players. Changyou's platform channel business also offers a number of software applications for PCs and mobile devices through two platforms, RaidCall and MoboTap. RaidCall provides online music and entertainment services, primarily in Taiwan. MoboTap provides (a) software applications for PCs and mobile devices through Dolphin Browser, which is a gateway to a host of user activities on mobile devices with the majority of its users based in overseas markets, and (b) domestic online card and board games.

In 2014, Changyou purchased 51% of the equity interests in MoboTap on a fully-diluted basis for approximately \$91 million in cash. Changyou's intention in making the acquisition was to generate benefits from expected synergies of the Dolphin Browser with Changyou's platform channel business.

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In 2015, the financial performance of the Dolphin Browser was below original expectations, and Changyou's management concluded that the Dolphin Browser was unable to provide the expected synergies with Changyou's platform channel business. Accordingly management performed a goodwill impairment test using the discounted cash flow method for the goodwill generated in the acquisition of MoboTap. As a result, Changyou recorded \$29.6 million and \$8.9 million, respectively, in goodwill and intangible assets impairment losses. MoboTap then switched its focus to the development and operation of card and board games in China, which have been MoboTap's main source of revenue since 2015.

In 2016, Changyou's Board of Directors approved the disposal of Changyou's 51% equity interest in MoboTap. Accordingly, the assets and liabilities attributable to MoboTap were classified as assets and liabilities held for sale and measured at the lower of their carrying amounts or their fair value, less cost to sell, in the Sohu Group's consolidated balance sheet as of December 31, 2016.

In the first quarter of 2017, Changyou's management determined that the disposal was unlikely to be completed within one year, due to the suspension of negotiations with a potential buyer of MoboTap. As a result, the assets held for sale and liabilities held for sale related to MoboTap were reclassified and have been recorded as assets and liabilities held for use and measured at the lower of the carrying value before MoboTap was classified as held for sale, adjusted for any depreciation and amortization expense that would have been recognized had the assets and liabilities been continuously classified as held for use, or the fair value as of the reclassification date in the Sohu Group's consolidated balance sheets commencing on the reclassification date. In the first quarter of 2017, Changyou recorded a \$1.4 million expense in the consolidated statements of comprehensive income for catch-up of depreciation and amortization expense of the assets held for sale before the reclassification.

In the third quarter of 2017, due to reinforced restrictions the Chinese regulatory authorities imposed on card and board games, some of Changyou's key distribution partners informed Changyou that they had decided to stop the distribution and promotion of card and board games, which had an adverse impact on MoboTap's current performance, and also increased the uncertainty for its future operations and cash flow. As a result, Changyou determined that it is unlikely for MoboTap to gain users and grow its online card and board games revenues in China. Management performed an impairment test in the third quarter of 2017 using the discounted cash flow method and impairment charges of \$86.9 million were recognized to reflect the fair value of the MoboTap business, of which an \$83.5 million impairment loss was recognized for goodwill and a \$3.4 million impairment loss was recognized for intangible assets.

All revenues generated by the 17173.com Website are classified as brand advertising revenues, online card and board games revenues generated by MoboTap are classified as online game revenues, and IVAS revenues generated by MoboTap through the Dolphin Browser and generated by RaidCall are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Cinema Advertising Business

Changyou also operates a cinema advertising business, which consists primarily of the acquisition, from operators of movie theaters, and the sale, to advertisers, of pre-film advertising slots, which are advertisements shown before the screening of a movie in a cinema theatre. Revenues generated by Changyou's cinema advertising business are classified as other revenues in our consolidated statements of comprehensive income.

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

Basis of Consolidation and Recognition of Noncontrolling Interest

Our consolidated financial statements include the accounts of Sohu.com Inc. and its subsidiaries and consolidated VIEs. All intra-Group transactions are eliminated.

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VIE Consolidation

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

Noncontrolling Interest Recognition

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

Noncontrolling Interest for Sogou

Sogou's Share Structure

As of September 30, 2017, Sogou had outstanding a combined total of 336,194,956 ordinary shares and preferred shares held as follows:

- (i) Sohu.com Inc.: 130,920,250 Class A Ordinary Shares, of which 3,707,000 shares may be purchased by Sohu management and key employees under an option arrangement;
- (ii) Photon Group Limited, an investment vehicle of the Sohu Group's Chairman and Chief Executive Officer Charles Zhang ("Photon"): 32,000,000 Series A Preferred Shares;
- (iii) Tencent: 6,757,875 Class A Ordinary Shares, 65,431,579 Series B Preferred Shares and 79,368,421 non-voting Class B Ordinary Shares; and
- (iv) Various employees of Sogou and Sohu: 21,716,831 Class A Ordinary Shares.

Sohu's Shareholding in and Control of Sogou

As of September 30, 2017, we held approximately 36% of the outstanding equity capital of Sogou on a fully-diluted basis, assuming for such purpose that all share options under the Sogou 2010 Share Incentive Plan and all share options under the Sohu Management Sogou Share Option Arrangement are granted and exercised, and that all of the Sogou Class A Ordinary Shares that Sogou has repurchased are re-issued to shareholders other than us. Also as of September 30, 2017, we held over 50% of the total voting power of Sogou on a fully-diluted basis and controlled the election of a majority of the Board of Directors of Sogou, assuming that Tencent's non-voting Class B Ordinary Shares are converted to voting shares, that all of the Sogou Class A Ordinary Shares that Sogou has repurchased are re-issued to shareholders other than us, and that all Sogou share options under the Sogou 2010 Share Incentive Plan and all Sogou share options under the Sohu Management Sogou Share Option Arrangement are granted and exercised.

As Sogou's controlling shareholder, we consolidate Sogou in our consolidated financial statements, and recognize noncontrolling interest reflecting economic interests in Sogou held by shareholders other than us (the "Sogou noncontrolling shareholders"). Sogou's net income/(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in our consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity/(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou's Series A Preferred Shares and Series B Preferred Shares (collectively, the "Sogou Preferred Shares") and Ordinary Shares are accounted for as a noncontrolling interest classified as permanent equity in our consolidated balance sheets, as we have the right to reject a redemption requested by the noncontrolling shareholders. These treatments are based on the terms governing investments from, and on the terms of the classes of Sogou shares held by, the noncontrolling shareholders in Sogou.

Principles of Allocation of Sogou's Profit and Loss

By virtue of the terms of Sogou Preferred Shares and Class A Ordinary Shares and Class B Ordinary Shares, Sogou's losses are allocated in the following order:

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

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

Net income from Sogou is allocated in the following order:

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

Key Terms of Sogou Preferred Shares

The following is a summary of some of the key terms of the Sogou Preferred Shares under Sogou's Memorandum and Articles of Association as currently in effect.

(i) Dividend Rights

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

(ii) Liquidation Rights

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

(iii) Redemption Rights

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

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(iv) Conversion Rights

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

(v) Voting Rights

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

(vi) Other Rights

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

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

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

Voting Agreement Signed among Sohu, Tencent, and Sogou in August 2017

In August 2017, in anticipation of Sogou's previously-announced currently pending proposed IPO, Sohu, Tencent, and Sogou entered into the Voting Agreement, which will take effect upon the completion of the proposed IPO. Effective upon the completion of the proposed IPO, all of the Sogou shares held by us for our own account and all of the Sogou shares held by Tencent will be redesignated as Class B Ordinary Shares. Each Class B Ordinary Share will be entitled to ten votes per share on any matter brought to a vote of Sogou shareholders, whereas Class A Ordinary Shares, which will be held by shareholders other than us and Tencent, will be entitled to one vote per share. As a result of the additional voting power of the Class B Ordinary Shares, upon the completion of the proposed IPO Sogou and Tencent will together have the power to determine all matters that may come to a vote of Sogou's shareholders, including the election of directors. Under the Voting Agreement, following the completion of Sogou's proposed IPO, we will have the right to appoint a majority of Sogou's Board of Directors and Tencent will have the right to appoint two directors. We will continue to consolidate Sogou in our financial statements following the completion of the proposed IPO, and will provide for non-controlling interests reflecting ordinary shares in Sogou held by shareholders other than us.

Noncontrolling Interest for Changyou

Changyou is a public company listed on the NASDAQ Global Select Market. As of September 30, 2017, we held approximately 68% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou.

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

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Segment Reporting

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

Revenue Recognition

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

Revenues or expenses from barter transactions are recognized at fair value during the period in which the advertisements are provided only if the fair value of the advertising services surrendered in the transaction is determinable based on our historical practice of receiving cash and cash equivalents, marketable securities, or other consideration that is readily convertible to a known amount of cash for similar advertising from buyers unrelated to the counterparty in the barter transaction.

Online Advertising Revenues

Online advertising revenues include revenues from brand advertising services as well as search and search-related advertising services. We recognize revenue for the amount of fees we receive from our advertisers, after deducting agent rebates and net of value-added tax ("VAT") and related surcharges.

Brand Advertising Revenues

Business Model

Through PCs and mobile devices, we provide advertisement placements to our advertisers on different Internet platforms and in different formats, which include banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, pause video screens, loading page ads, news feed ads and in-feed video infomercial ads.

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

(i) Fixed Price model

Under the Fixed Price model, a contract is signed to establish a fixed price for the advertising services to be provided. We recognize revenue based on the contract price and the period of display.

(ii) CPM model

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

(iii) CPC model

Under the CPC model, there is no overall fixed price for advertising services stated in the contract with the advertiser. We charge advertisers on a per-click basis when the users click on the advertisements. The unit price for each click is auction-based. We recognize revenue based on qualifying clicks and the unit price.

(iv) E-commerce model

Under the e-commerce model, revenues were mainly generated from sales of membership cards which allow potential home buyers to purchase specified properties from real estate developers at a discount greater than the price that Focus charges for the card. Membership fees are refundable until the potential home buyer uses the discounts to purchase properties. Focus recognizes such revenues upon obtaining confirmation that the membership card has been redeemed to purchase a property.

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Revenue Recognition

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

We treat advertising contracts with multiple deliverable elements as separate units of accounting for revenue recognition purposes and recognize revenue on a periodic basis during the contract period when each deliverable service is provided. Since the contract price is for all deliverables under one advertising contract, we allocate the contract price among all the deliverables at the inception of the arrangement on the basis of their relative selling prices according to the selling price hierarchy established by ASU No. 2009-13. We first use vendor-specific objective evidence of selling price, if it exists. If vendor-specific objective evidence of selling price does not exist, we use third-party evidence of selling price. If neither vendor-specific objective evidence of selling price nor third-party evidence of selling price exists, we use management's best estimate of selling price for the deliverables.

Search and Search-related Advertising Revenues

Search and search-related services consist primarily of search and search-related advertising services offered by Sogou.

Pay-for-click Services

Pay-for-click services are services that enable our advertisers' promotional links to be displayed on Sogou's search results pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. For pay-for-click services, we introduce Internet users to our advertisers through our auction-based systems and charge advertisers on a per-click basis when the users click on the displayed links. Revenue for pay-for-click services is recognized on a per-click basis when the users click on the displayed links.

Other Online Advertising Services

Other online advertising services mainly consist of displaying advertisers' promotional links on Sogou's Internet properties. Revenue for time-based advertising 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 performance-based advertising services is recognized when our obligations under the contract have been met.

Sogou's advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. We recognize gross revenue for the amount of fees we receive from advertisers, as we are the primary obligor to the advertisers. Payments made to operators of third-party Internet properties are included in traffic acquisition costs, which are included in cost of search and search-related advertising revenues.

Online Game Revenues

Changyou's online game revenues are generated primarily from its self-operated and licensed-out PC games and mobile games. Prior to the sale of the Shenzhen 7Road business in 2015, Changyou generated online game revenues from Web games, which have been an insignificant part of Changyou's business since the sale. Changyou's online game revenues also include revenues generated from online card and board games offered by MoboTap. All of Changyou's games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items.

Self-Operated Games

Changyou is the primary obligor of its self-operated games. Changyou hosts the games on its own servers and is responsible for the sale and marketing of the games as well as customer service. Accordingly, revenues are recorded gross of revenue sharing-payments to third-party developers and/or mobile APP stores, but are net of business tax/VAT and discounts to game card distributors where applicable. Changyou obtains revenues from the sale of in-game virtual items. Revenues are recognized over the estimated lives of the virtual items purchased by game players or as the virtual items are consumed. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

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PC Games

Proceeds from the self-operation of PC games are collected from players and third-party game card distributors through sales of Changyou's game points on its online payment platform and prepaid game cards.

Self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou's cost of revenues.

Mobile Games

For self-operated mobile games, Changyou sells game points to its game players via third-party mobile APP stores. The mobile APP stores in turn pay Changyou proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly developed mobile games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to mobile application stores and third-party developers are recorded in Changyou's cost of revenues.

Web Games

Changyou continued to operate a small portfolio of self-operated Web games after its sale of the Shenzhen 7Road in 2015. Proceeds from those self-operated Web games are collected from players through the sale of game points.

Licensed-Out Games

Changyou also authorizes third parties to operate its online games. Licensed out games include PC games and mobile games developed in house (such as its mobile game Legacy TLBB) and mobile games jointly developed with third-party developers. Changyou receives monthly revenue-based royalty payments from all the third-party licensee operators. Changyou receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate Changyou's games in specified geographic areas. Since Changyou is obligated to provide post-sale services, the initial license fees are recognized as revenue ratably over the license period, and the monthly revenue-based royalty payments are recognized when relevant services are delivered, provided that collectability is reasonably assured. Changyou views the third-party licensee operators as Changyou's customers and recognizes revenues on a net basis, as Changyou does not have the primary responsibility for fulfillment and acceptability of the game services. Changyou remits to the third-party developers a pre-agreed percentage of revenues from jointly-developed and licensed-out mobile games, and recognizes the revenue-sharing amounts paid to third-party developers as cost of revenues or product development expenses.

Other Revenues

Sohu

Other revenues attributable to Sohu consist primarily of revenues from paid subscription services, sub-licensing of purchased video content to third parties, interactive broadcasting services, and content provided through the platforms of the three main telecommunications operators in China.

Sogou

Other revenues attributable to Sogou are revenues from IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and revenues from other products and services that Sogou offers, including smart hardware products.

Changyou

Other revenues attributable to Changyou are primarily from its cinema advertising business and are also from IVAS.

In its cinema advertising business, Changyou provides clients advertising placements in slots that are shown in theaters before the screening of movies. The rights to place advertisements in such advertising slots are granted under contracts Changyou signs with different theaters. When all the recognition criteria are met, revenues from cinema advertising are recognized based on a percentage of the advertising slots actually delivered or on a straight-line basis over the contract period.

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Changyou provides IVAS primarily through software applications for PCs and mobile devices offered by MoboTap on the Dolphin Browser and by RaidCall. Revenues from IVAS are recognized during the period the service is rendered or items are consumed under the gross method, as Changyou is the principal obligor for provision of the services.

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, content and license expenses, development, upgrade and technical support service fees, depreciation and amortization expenses, share-based compensation, and facilities expenses. These expenses are incurred for the enhancement and maintenance of our Internet platforms as well as for our products and services, including the development costs of online games prior to the establishment of technological feasibility and cost of upgrades and technical support after the online games are available for marketing.

Advertising Expenses

Advertising expenses are included in sales and marketing expenses, and generally represent the expenses of promotions to create or stimulate a positive image of us or a desire to subscribe for our products and services. Advertising and promotional expenses are expensed as incurred.

Share-based Compensation Expense

Sohu (excluding Fox Video Limited), Sogou, Changyou, and Fox Video Limited (“Sohu Video”) have incentive plans for the granting of share-based awards, including stock options, share options and restricted share units, to members of the boards of directors, management and other key employees.

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

Sohu (excluding Sohu Video), Sogou, and Changyou Share-based Awards

Sohu (excluding Sohu Video) Share-based Awards

In determining the fair value of stock options granted by Sohu (excluding Sohu Video) as share-based awards before 2006, the Black-Scholes valuation model was applied. In determining the fair value of restricted share units granted, the public market price of the underlying shares on the grant dates was applied.

Options for the purchase of Sohu common stock contractually granted under the Sohu 2010 Stock Incentive Plan are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Sohu and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards’ fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair value at the grant date. In determining the fair values of the stock options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

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Sogou Share-based Awards

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

Changyou Share-based Awards

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

Options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Changyou and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair values at the grant date. In determining the fair values of Changyou share options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

Compensation Expense Recognition

For options and restricted share units granted with respect to Sohu (excluding Sohu Video) shares and Changyou shares, compensation expense is recognized on an accelerated basis over the requisite service period. For share options granted with respect to Sogou shares, compensation expense is recognized over the estimated period during which the service period requirement and performance target will be met, which is usually within one year. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses, compensation expense is recognized by Sogou on an accelerated basis over the requisite service period, and the fair value of the share-based compensation is re-measured at each reporting date until the service has been provided. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and no compensation expense is recorded for the number of awards so estimated.

For Sogou Class A Ordinary Shares repurchased from our former President and Chief Financial Officer in the first quarter of 2017, share-based compensation expense is recognized by the Sohu Group in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value of the Sogou Class A Ordinary Shares at the repurchase date.

Sohu Video Share-based Awards

On January 4, 2012, Sohu Video, the holding entity of Sohu's video division, adopted a 2011 Share Incentive Plan (the "Video 2011 Share Incentive Plan") which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (representing approximately 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of September 30, 2017, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made, of which options for the purchase of 4,972,800 ordinary shares were vested.

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For purposes of ASC 718-10-25, as of September 30, 2017, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. Therefore the fair value of the awards was not determinable and could not be accounted for. In accordance with ASC 718-10-55, our management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date. Therefore, we recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Taxation

Income Taxes

Recognition

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

Our deferred tax assets are related to net operating losses and temporary differences between accounting basis and tax basis for our China-Based Subsidiaries and VIEs, which are subject to corporate income tax in the PRC under the CIT law.

Applicable Income Tax Rate

Principal Entities Qualified as HNTEs

The CIT Law generally applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to HNTEs. Under this preferential tax treatment, HNTEs can enjoy an income tax rate of 15%, but need to re-apply every three years.

During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of September 30, 2017, the following principal entities were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu's Business

- Sohu New Momentum. Sohu New Momentum qualified as an HNTE for 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.
- Sohu Internet. Sohu Internet qualified as an HNTE for 2015 to 2017, and will need to re-apply for HNTE qualification in 2018.
- Sohu Media and Guangzhou Qianjun. Sohu Media and Guangzhou Qianjun re-applied for HNTE qualification in August 2017 and May 2017, respectively. New Media's re-application has been approved, and it is qualified as an HNTE for 2017 to 2019 and will need to re-apply for qualification in 2020. Pending approval of its re-application, Guangzhou Qianjun is entitled to continue to enjoy the beneficial tax rate as if it had already qualified as an HNTE for 2017.

For Sogou's Business

- Sogou Information. Sogou Information qualified as an HNTE for 2015 to 2017, and will need to re-apply for HNTE qualification in 2018.

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- Sogou Technology. Sogou Technology re-applied for HNTE qualification in September 2017. Pending approval of its re-application, Sogou Technology is entitled to continue to enjoy the beneficial tax rate as if it had already qualified as an HNTE for 2017.
- Sogou Network. Sogou Network qualified as an HNTE for 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.

For Changyou's Business

- Gamease and AmazGame. Gamease and AmazGame re-applied for HNTEs qualification in August 2017 and October 2017, respectively. Pending approval of their re-applications, AmazGame and Gamease are entitled to continue to enjoy the beneficial tax rate as if they had already qualified as an HNTE for 2017.
- Gamespace. Gamespace qualified as HNTE for the years 2017 to 2019, and will need to re-apply for HNTE qualification in 2020.

Principal Entities Qualified as Software Enterprises and KNSEs

The CIT Law and its implementing regulations provide that a "Software Enterprise" is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a "Key National Software Enterprise" (a "KNSE") is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities' assessment each year as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise/KNSE status.

For Sohu's Business

- Sohu New Momentum. In the second quarter of 2017, Sohu New Momentum completed a self-assessment and filed required supporting documents to entitle it to the first year of an income tax rate reduction from 25% to 12.5% as a Software Enterprise for 2016, and will follow the same process in 2018 to entitle it to the second year of an income tax rate reduction from 25% to 12.5% for 2017.

For Sogou's Business

- Sogou Technology. In the second quarter of 2017, Sogou Technology completed a self-assessment and filed required supporting documents for KNSE status for 2016, and will follow the same process in 2018 for KNSE status for 2017.

For Changyou's Business

- AmazGame. In the second quarter of 2017, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2016, and will follow the same process in 2018 for KNSE status for 2017. In the third quarter of 2017, AmazeGame was qualified as a KNSE after the relevant government authorities' assessment and was entitled to a preferential income tax rate of 10% for 2016.
- Wuhan Baina Information. In the second quarter of 2017, Wuhan Baina Information completed a self-assessment and filed required supporting documents to entitle it to the first year of an income tax exemption as a Software Enterprise for 2016, and will follow the same process in 2018 to entitle it to the second year of an income tax exemption for 2017.

PRC Withholding Tax on Dividends

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

PRC Value Added Tax

On May 1, 2016, the transition from the imposition of Business Tax to the imposition of VAT was expanded to all industries in China, and all of our revenues have been subject to VAT since that date. To record VAT payable, we adopted the net presentation method, which presents the difference between the output VAT (at a rate of 6%) and the available input VAT amount (at the rate applicable to the supplier).

U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of up to 35%. To the extent that portions of its U.S. taxable income, such as Subpart F income or a dividend, are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may be able to claim foreign tax credits to offset its U.S. income tax liabilities. Any remaining liabilities are accrued in our consolidated statements of comprehensive income and estimated tax payments are made when required by U.S. law.

Uncertain Tax Positions

We are subject to various taxes in different jurisdictions, primarily the U.S. and the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to our income and transactions. In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Net Income / (Loss) per Share

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

Our financial instruments mainly include cash equivalents, restricted cash, short-term investments, accounts receivable, assets held for sale, prepaid and other current assets, long-term investments (including available-for-sale equity securities), restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, liabilities held for sale, short-term bank loans, other short-term liabilities and long-term accounts payable.

Cash Equivalents

Our cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash.

Short-term Investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, we elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

Accounts Receivable, Net

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

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Available-for-Sale Securities

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

Foreign exchange forward contracts

Foreign exchange forward contracts are initially recognized on the date a foreign exchange forward contract is entered into and are subsequently measured at fair value. Changyou entered into such foreign exchange forward contracts in compliance with its risk management policy for the purpose of eliminating the negative impact on earnings and equity resulting from fluctuations in the exchange rate between the U.S. dollar and the RMB. The instruments are marked-to-market at each period-end with the associated changes in fair value recognized in the line item "Other income /(expense), net" in the consolidated statements of comprehensive income and "Other short-term liabilities" or "Prepaid and other current assets" in the consolidated balance sheets.

Equity Investments

Investments in entities are recorded as equity investments under long-term investments. For entities over which we do not have significant influence, the cost method is applied, as there is no readily determinable fair value; for entities over which we can exercise significant influence but do not own a majority equity interest or control, the equity method is applied. For cost method investments, we carry the investment at historical cost after the date of investment. For equity method investments, we adjust the carrying amount of an investment and recognize investment income or loss for our share of the earnings or loss of the investee after the date of investment.

Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

Fixed Assets

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

<u>Fixed Assets</u>	<u>Estimated Useful Lives (years)</u>
Office buildings	36-47
Leasehold improvements	Lesser of term of the lease or the estimated useful lives of the assets
Building improvements	10
Vehicles	4-10
Office furniture	5
Computer equipment and hardware	2-5

Expenditure for maintenance and repairs is expensed as incurred.

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

Intangible Assets

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

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The estimated useful lives of our intangible assets are listed below:

<u>Intangible Assets</u>	<u>Estimated Useful Lives (years)</u>
Domain names and trademarks	4-30
Developed technologies	3-10
Computer software	1-5
Video content	4 months to 2 years, or over the applicable licensing period
Cinema advertising slot rights	over the contract terms
Operating rights for licensed games	over the contract terms

Impairment of Long-lived Assets

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

Video Content

Video content consists primarily of purchased video content and self-developed video content. Purchased video content is recognized as intangible assets. Amortization of purchased video content is computed based on the trend in viewership accumulation. For self-developed video content, production costs incurred in excess of the amount of revenue contracted for are expensed as incurred, instead of being recorded as intangible assets.

Sohu Video enters into nonmonetary transactions to exchange online broadcasting rights for purchased video content with other online video broadcasting companies. Under ASC 845, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain the acquired nonmonetary asset, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if the fair value of the asset received is more reliable than the fair value of the asset surrendered. We record these nonmonetary exchanges at the fair values of the online broadcasting rights for purchased video content and recognize any net gain or loss from such exchange transactions.

Impairment of Video Content

Purchased video content is stated at the lower of cost less accumulated amortization, or net realizable value ("NRV").

In accordance with ASC 920-350-35, if management's expectations of the programming usefulness of a program, series, package, or program segment are revised downward, it may be necessary to write down unamortized cost to estimated NRV. A write-down from unamortized cost to a lower estimated NRV establishes a new cost basis. Accordingly, we measure the video content's impairment loss by comparing the content's carrying value to its NRV. An impairment loss will be recorded if the carrying value of video content is higher than its NRV. The impairment to be recognized is measured by the amount by which the carrying value of video content exceeds its NRV.

Goodwill

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

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In accordance with ASC 350, we do not amortize goodwill, but test it for impairment. We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. Under ASC 350-20-35, we have the option to choose whether we will apply a qualitative assessment first and then a quantitative assessment, if necessary, or to apply a quantitative assessment directly. For reporting units applying a qualitative assessment first, we start the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. For reporting units directly applying the quantitative assessment, we perform the goodwill impairment test by quantitatively comparing the fair values of those reporting units to their carrying amounts. After performing the assessment, if the carrying amounts of the reporting units are higher than their fair value, we perform the second step of the two-step quantitative goodwill impairment test.

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. We estimate fair value using the income approach or the market approach. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates, control premium, comparable companies' multipliers, and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on our consolidated balance sheets, includes a cumulative foreign currency translation adjustment and an unrealized gain/(loss) on available-for-sale securities.

Functional Currency and Foreign Currency Translation

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

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

Financial statements of entities with a functional currency other than the U.S. dollar are translated into U.S. dollars, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average of the exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from translating a foreign currency to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

RESULTS OF OPERATIONS

Revenues

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

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2016		2017		2017 vs 2016		2016		2017		2017 vs 2016	
	Amount	Percentage of the total revenue	Amount	Percentage of the total revenue	Amount	Incremental ratio	Amount	Percentage of the total revenue	Amount	Percentage of the total revenue	Amount	Incremental ratio
Revenues												
Online advertising:												
Brand advertising	\$110,871	27%	74,832	15%	(36,039)	(33)%	\$ 349,261	28%	242,315	18%	(106,946)	(31)%
Search and search-related advertising	150,667	37%	225,363	43%	74,696	50%	444,633	36%	554,145	41%	109,512	25%
Subtotal of online advertising revenues	261,538	64%	300,195	58%	38,657	15%	793,894	64%	796,460	59%	2,566	0%
Online game	98,553	24%	132,427	26%	33,874	34%	300,309	24%	340,150	25%	39,841	13%
Others	50,491	12%	83,439	16%	32,948	65%	144,469	12%	214,722	16%	70,253	49%
Total revenues	\$410,582	100%	516,061	100%	105,479	26%	\$1,238,672	100%	1,351,332	100%	112,660	9%

Online Advertising Revenues

Online advertising revenues were \$300.2 million and \$796.5 million, respectively, for the three and nine months ended September 30, 2017, compared to \$261.5 million and \$793.9 million, respectively, for the corresponding periods in 2016. Online advertising revenues were generally stable for the three and nine months ended September 30, 2017, compared to the three and nine months ended September 30, 2016.

Brand Advertising Revenues, Generated by Sohu and Changyou

Brand advertising revenues were \$74.8 million and \$242.3 million, respectively, for the three and nine months ended September 30, 2017, compared to \$110.9 million and \$349.3 million, respectively, for the corresponding periods in 2016. The decrease in brand advertising revenues from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$36.1 million, representing a year-on-year decrease rate of 33%, and the decrease from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$107.0 million, representing a year-on-year decrease rate of 31%. The year-on-year decrease in brand advertising revenues was mainly attributable to a decline in revenues from large advertisers as well as an adverse real estate advertising market.

Sohu

- Sohu Media Portal

Revenues from Sohu Media Portal were \$37.9 million and \$115.9 million, respectively, for the three and nine months ended September 30, 2017, compared to \$48.0 million and \$140.1 million, respectively, for the corresponding periods in 2016. The decrease in revenues from Sohu Media Portal from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$10.1 million, representing a year-on-year decrease rate of 21%, and the decrease from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$24.2 million, representing a year-on-year decrease rate of 17%. The average amount spent per advertiser was approximately \$10,000 and \$20,000, respectively, for the three months and nine months ended September 30, 2017, compared to \$26,000 and \$47,000, respectively, for the corresponding periods in 2016. While the slowdown in the growth of the economy in China shrank the budgets of brand advertisers, rapid growth in the number of small and medium enterprise (“SME”) customers advertising on Sohu Media Portal helped offset the impact to some extent. The number of advertisers for Sohu Media Portal was 3,881 and 5,773, respectively, for the three and nine months ended September 30, 2017, compared to 1,865 and 2,997, respectively, for the corresponding periods in 2016.

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- Sohu Video

Revenues from Sohu Video were \$18.9 million and \$62.3 million, respectively, for the three and nine months ended September 30, 2017, compared to \$25.4 million and \$98.4 million, respectively, for the corresponding periods in 2016. The decrease in revenues from Sohu Video from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$6.5 million, representing a year-on-year decrease rate of 26%, and the decrease from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$36.1 million, representing a year-on-year decrease rate of 37%. The changes were mainly attributable to fluctuations both in the number of advertisers and in the average amount spent per advertiser. Both the number of advertisers and the average amount spent per advertiser for the three and nine months ended September 30, 2017 decreased compared to the corresponding periods in 2016, which led to the decreases in revenues from Sohu Video. The number of advertisers for Sohu Video was 152 and 296, respectively, for the three and nine months ended September 30, 2017, compared to 208 and 385, respectively, for the corresponding periods in 2016. The average amount spent per advertiser was approximately \$124,000 and \$210,000, respectively, for the three and nine months ended September 30, 2017, compared to \$122,000 and \$256,000, respectively, for the corresponding periods in 2016.

- Focus

Revenues from Focus were \$12.0 million and \$45.1 million, respectively, for the three and nine months ended September 30, 2017, compared to \$25.8 million and \$79.6 million, respectively, for the corresponding periods in 2016. The decrease in revenues from Focus from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$13.8 million, representing a year-on-year decrease rate of 53%, and the decrease from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$34.5 million, representing a year-on-year decrease rate of 43%.

Revenues from Focus were generated through the Fixed Price model and the E-commerce model.

For the Fixed Price model, revenues were \$8.2 million and \$30.2 million, respectively, for the three and nine months ended September 30, 2017, compared to \$10.9 million and \$36.3 million, respectively, for the corresponding periods in 2016, representing a year-on-year decrease of \$2.7 million and \$6.1 million, respectively, from the three months ended September 30, 2016 to the three months ended September 30, 2017 and from the nine months ended September 30, 2016 to the nine months ended September 30, 2017.

For the E-commerce model, revenues were \$3.8 million and \$14.9 million, respectively, for the three and nine months ended September 30, 2017, compared to \$14.9 million and \$43.3 million, respectively, for the corresponding periods in 2016, representing a year-on-year decrease of 75% and 66%, respectively, from the three months ended September 30, 2016 to the three months ended September 30, 2017 and from the nine months ended September 30, 2016 to the nine months ended September 30, 2017. The decrease was mainly driven by sharp declines in the numbers of paying subscribers and cooperative developers, resulting from the PRC government's implementation of tightened real estate policies starting from the beginning of 2017. The number of developers with which we had cooperation arrangements was 364 and 937, respectively, for the three and nine months ended September 30, 2017, compared to 725 and 1,234, respectively, for the corresponding periods in 2016. The number of paying subscribers for the membership services was 3,745 and 22,620, respectively, for the three and nine months ended September 30, 2017, compared to 26,233 and 74,050, respectively, for the corresponding periods in 2016.

Changyou

- 17173.com Website

Revenues from the 17173.com Website were \$6.0 million and \$19.0 million, respectively, for the three and nine months ended September 30, 2017, compared to \$11.7 million and \$31.1 million, respectively, for the corresponding periods in 2016. The decrease in revenues from 17173.com Website for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 was \$5.7 million, representing a year-on-year decrease of 49%, and the decrease for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 was \$12.1 million, representing a year-on-year decrease of 39%. The decrease was mainly due to fewer PC games being launched in China and our new mobile initiatives being at an early stage. The number of advertisers on the 17173.com Website was 89 and 148, respectively, for the three and nine months ended September 30, 2017, compared to 106 and 163, respectively, for the corresponding periods in 2016. The average amount spent per advertiser was approximately \$67,000 and \$128,000, respectively, for the three months and nine months ended September 30, 2017, compared to \$110,000 and \$191,000, respectively, for the corresponding periods in 2016.

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Search and Search-related Advertising Revenues, Generated by Sogou

Search and search-related advertising revenues were \$225.4 million and \$554.1 million, respectively, for the three and nine months ended September 30, 2017, compared to \$150.7 million and \$444.6 million, respectively, for the corresponding periods in 2016. The increase in search and search-related advertising revenues from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$74.7 million, representing a year-on-year growth rate of 50%, and the increase from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$109.5 million, representing a year-on-year growth rate of 25%. The increases were mainly driven by robust traffic growth and improved monetization on the mobile end.

The increase in search and search-related advertising revenues mainly consisted of an increase in revenues from auction-based pay-for-click services, which accounted for approximately 84% and 83%, respectively, of the total search and search-related revenues for the three and the nine months ended September 30, 2017, compared to 78% and 77%, respectively, for the corresponding periods in 2016.

The growth in revenues from auction-based pay-for-click services resulted from increases both in the number of advertisers and in average revenue per advertiser (or “ARPA”). The number of auction-based pay-for-click advertisers was approximately 77,000 and 115,000, respectively, for the three and nine months ended September 30, 2017, compared to 63,000 and 100,000, respectively, for the corresponding periods in 2016. The ARPA for auction-based pay-for-click services was \$2,455 and \$3,987, respectively, for the three and nine months ended September 30, 2017, compared to \$1,859 and \$3,442, respectively, for the corresponding periods in 2016. The increase in auction-based pay-for-click advertisers was primarily driven by a successful expansion of our network of advertising agencies. The increase in ARPA was primarily attributable to an increase in the number of paid clicks, but ARPA for the nine months ended September 30, 2017 was adversely affected by depreciation of the RMB against the U.S. dollar. The total number of our paid clicks increased by 65% and 35%, respectively, for the three and nine months ended September 30, 2017, primarily driven by strong growth in mobile paid clicks as a result of rapidly-growing mobile search traffic, and an improved click-through rate on the mobile end, which was partially offset by declining PC paid clicks.

Online Game Revenues Generated by Changyou

Revenues from the online game business were \$132.4 million and \$340.2 million, respectively, for the three and nine months ended September 30, 2017, compared to \$98.6 million and \$300.3 million, respectively, for the corresponding periods in 2016. The year-over-year increases were mainly due to the revenue contribution of the Legacy TLBB mobile game, which was launched in the middle of the second quarter of 2017.

PC Games and Mobile Games

Revenues from PC games were \$58.3 million and \$180.8 million, respectively, for the three and nine months ended September 30, 2017, compared to \$70.4 million and \$204.3 million, respectively, for the corresponding periods in 2016. The decrease in revenues from PC games from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$12.1 million, representing a year-on-year decrease rate of 17%, and the decrease from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$23.5 million, representing a year-on-year decrease rate of 12%. The year-on-year decrease in revenues from PC games was mainly due to the natural decline in revenues of TLBB, which is an older PC game. For the three and nine months ended September 30, 2017, the PC game TLBB generated \$48.3 million and \$149.4 million, respectively, in revenues, accounting for approximately 36% and 44%, respectively, of Changyou’s online game revenues, approximately 29% and 34%, respectively, of Changyou’s total revenues and approximately 9% and 11%, respectively, of the Sohu Group’s total revenues.

Revenues from mobile games were \$73.7 million and \$157.8 million, respectively, for the three and nine months ended September 30, 2017, compared to \$27.3 million and \$92.5 million, respectively, for the corresponding periods in 2016. The increase in revenues from mobile games from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$46.4 million, representing a year-on-year increase rate of 170%, and the increase from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$65.3 million, representing a year-on-year increase rate of 71%. The increase in revenues from mobile games was mainly driven by the successful launch of the new mobile game Legacy TLBB in the second quarter of 2017. For the three and nine months ended September 30, 2017, the mobile game Legacy TLBB generated \$56.2 million and \$104.2 million, respectively, in revenues, accounting for approximately 42% and 31%, respectively, of Changyou’s online game revenues, approximately 34% and 24%, respectively, of Changyou’s total revenues, and approximately 11% and 8%, respectively, of the Sohu Group’s total revenues.

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The following table sets forth certain operating data for Changyou's PC games and mobile games for the periods indicated:

Average Monthly Active Accounts (1) (in millions)	Three Months Ended March 31		Three Months Ended June 30		Three Months Ended September 30	
	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
2016	3.0	3.2	2.9	2.4	2.7	2.8
2017	2.4	1.1	2.4	7.4	2.3	5.2

Quarterly Aggregate Active Paying Accounts (2) (in millions)	Three Months Ended March 31		Three Months Ended June 30		Three Months Ended September 30	
	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
2016	1.1	0.8	1.0	0.6	1.0	0.7
2017	0.9	0.3	0.9	2.5	0.8	1.4

- (1) Average Monthly Active Accounts for a given period refers to the number of registered accounts that were logged in to these games at least once during the period.
(2) Quarterly Aggregate Active Paying Accounts for a given quarter refers to the number of accounts from which game points were used at least once during the quarter.

Web Games

Revenues from Web games were \$0.4 million and \$1.6 million, respectively, for the three and nine months ended September 30, 2017, compared to \$0.8 million and \$3.5 million, respectively, for the corresponding periods in 2016.

Other Revenues

Revenues from other services were \$83.4 million and \$214.7 million, respectively, for the three and nine months ended September 30, 2017, compared to \$50.4 million and \$144.5 million, respectively, for the corresponding periods in 2016.

The increase from the three months ended September 30, 2016 to the corresponding period of 2017 was \$33.0 million, consisting of a \$9.3 million increase in revenues from smart hardware products, a \$6.8 million increase in revenues from sub-licensing of purchased video content to third parties, a \$6.6 million increase in paid subscription services, a \$5.8 million increase in IVAS revenues.

The increase from the nine months ended September 30, 2016 to the corresponding period of 2017 was \$70.2 million, consisting mainly of a \$17.8 million increase in revenues from the cinema advertisement business, a \$15.5 million increase in IVAS revenues, a \$14.9 million increase in paid subscription service revenues, and a \$12.0 million increase in revenues from smart hardware products.

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Costs and Expenses

Cost of Revenues

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

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2016		2017		2017 vs 2016		2016		2017		2017 vs 2016	
	Amount	Percentage of the total cost	Amount	Percentage of the total cost	Amount	Incremental ratio	Amount	Percentage of the total cost	Amount	Percentage of the total cost	Amount	Incremental ratio
Cost of revenues:												
Online advertising:												
Brand advertising	\$ 102,137	46%	75,733	29%	(26,404)	(26)%	\$ 281,427	45%	280,660	37%	(767)	(0)%
Search and search-related advertising	76,457	34%	115,422	44%	38,965	51%	210,547	34%	294,221	39%	83,674	40%
Subtotal of cost of online advertising revenues	178,594	80%	191,155	73%	12,561	7%	491,974	79%	574,881	76%	82,907	17%
Online game	23,719	11%	17,560	7%	(6,159)	(26)%	75,232	12%	45,678	6%	(29,554)	(39)%
Others	20,571	9%	53,679	20%	33,108	161%	60,783	9%	138,908	18%	78,125	129%
Total cost of revenues	<u>\$ 222,884</u>	100%	<u>262,394</u>	100%	<u>39,510</u>	18%	<u>\$ 627,989</u>	100%	<u>759,467</u>	100%	<u>131,478</u>	21%

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Cost of Online Advertising Revenues

Cost of online advertising revenues was \$191.2 million and \$574.9 million, respectively, for the three and nine months ended September 30, 2017, compared to \$178.6 million and \$492.0 million, respectively, for the corresponding periods in 2016. The increase in cost of online advertising revenues from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$12.6 million, representing a year-on-year growth rate of 7%. The increase in cost of online advertising revenues from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$82.9 million, representing a year-on-year growth of 17%.

Cost of Brand Advertising Revenues

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

Cost of brand advertising revenues was \$75.7 million and \$280.7 million, respectively, for the three and nine months ended September 30, 2017, compared to \$102.1 million and \$281.4 million, respectively, for the corresponding periods in 2016.

The decrease in cost of brand advertising revenues from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$26.4 million, representing a year-on-year decrease rate of 26%. The decrease mainly consisted of a \$17.4 million decrease in content and license costs, and a \$3.0 million decrease in salary and benefits expense.

The decrease in cost of brand advertising revenues from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$0.7 million, representing a year-on-year decrease rate of 0.2%. The decrease mainly consisted of a \$12.6 million decrease in bandwidth leasing costs, a \$7.1 million decrease in salary and benefits expense, a \$2.3 million decrease in depreciation expense, a \$1.7 million decrease in travelling and entertainment expense, and a \$1.2 million decrease in facilities expense, offset by a \$24.1 million increase in content and license costs resulting primarily from an impairment charge related to video content in the second quarter of 2017. In the second quarter of 2017, we recognized an impairment loss of \$44.9 million, which was mainly due to the ongoing restructuring of the sales team of Sohu Video as well as a strategic shift to reduce purchasing of licensed video content beginning in the second half of 2016. These two factors had an adverse impact on Sohu Video's performance for the second quarter of 2017, which failed to meet management's expectations.

Our brand advertising gross margin was negative 1% and negative 16%, respectively, for the three and nine months ended September 30, 2017, as compared to 8% and 19%, respectively, for the corresponding periods in 2016. The year-over-year decrease was mainly due to decreased revenues from Sohu Video and the impairment loss recognized with respect to video content in the second quarter of 2017.

Cost of Search and Search-related Advertising Revenues

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

Cost of search and search-related advertising revenues was \$115.4 million and \$294.2 million, respectively, for the three and nine months ended September 30, 2017 compared to \$76.5 million and \$210.5 million, respectively, for the corresponding periods in 2016.

The increase in cost of search and search-related advertising revenues from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$38.9 million. The increase mainly consisted of a \$33.0 million increase in traffic acquisition costs, a \$3.6 million increase in depreciation expense and a \$1.7 million increase in bandwidth leasing costs.

The increase in cost of search and search-related advertising revenues from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$83.7 million. The increase mainly consisted of \$67.3 million increase in traffic acquisition costs, a \$10.6 million increase in depreciation expense, a \$6.2 million increase in salary and benefits expenses, and a \$4.2 million increase in bandwidth leasing costs.

Our search and search-related advertising gross margin was 49% and 47%, respectively, for the three and nine months ended September 30, 2017, as compared to 49% and 53%, respectively, for the corresponding periods in 2016. The decreases in our search and search-related advertising gross margin for the nine months ended September 30, 2017 were mainly due to higher traffic acquisition costs as a percentage of search and search-related advertising revenues.

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Cost of Online Game Revenues

Cost of online game revenues mainly consists of revenue-sharing payments, salary and benefits expense, amortization and depreciation expenses, and content and license costs.

Cost of online game revenues was \$17.6 million and \$45.7 million, respectively, for the three and nine months ended September 30, 2017, compared to \$23.7 million and \$75.2 million, respectively, for the corresponding periods in 2016.

The decrease in cost of online game revenues from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$6.1 million, representing a year-on-year decrease of 26%. The decrease consisted primarily of a \$3.5 million decrease in revenue-sharing payments to mobile APP stores and third-party developers, and a \$1.5 million decrease in professional fee expenses.

The decrease in cost of online game revenues from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$29.5 million, representing a year-on-year decrease of 39%. The decrease consisted primarily of a \$16.4 million decrease in revenue-sharing payments to mobile APP stores and third-party developers, a \$5.4 million decrease in bandwidth leasing costs, and a \$4.5 million decrease in salary and benefits expense.

Our online game gross margin was 87% for both the three months and the nine months ended September 30, 2017, compared to 76% and 75%, respectively, for the corresponding periods in 2016. The increase in our online game gross margin was mainly due to the successful launch of Legacy TLBB in the second quarter of 2017, which has a high gross margin as revenue is recognized on a net basis after revenue-sharing with Tencent.

Cost of Other Revenues

Cost of other revenues mainly consists of payments to theaters for pre-film screening advertising slots, cost of smart hardware products, content and license costs related to paid subscription services, revenue-sharing payments related to the IVAS business, and revenue-sharing payments related to interactive broadcasting services.

Cost of other revenues was \$53.7 million and \$138.9 million, respectively, for the three and nine months ended September 30, 2017, compared to \$20.6 million and \$60.8 million, respectively, for the corresponding periods in 2016. The increase in cost of other revenues for the three and nine months period was mainly due to increased payments to theaters for pre-film screening advertising slots of \$10.7 million and \$27.9 million, respectively, increased cost of smart hardware products of \$8.4 million and \$12.2 million, respectively, and increased content and license costs related to paid subscription services of \$8.2 million and \$25.3 million, respectively.

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Operating Expenses

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

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2016		2017		2017 vs 2016		2016		2017		2017 vs 2016	
	Amount	Percentage of the total expense	Amount	Percentage of the total expense	Amount	Incremental ratio	Amount	Percentage of the total expense	Amount	Percentage of the total expense	Amount	Incremental ratio
Operating expenses:												
Product development	\$ 90,007	38%	105,162	31%	15,155	17%	\$261,645	39%	289,406	38%	27,761	11%
Sales and marketing	110,584	46%	111,935	34%	1,351	1%	318,597	47%	296,866	39%	(21,731)	(7)%
General and administrative	38,670	16%	31,038	9%	(7,632)	(20)%	95,927	14%	87,045	12%	(8,882)	(9)%
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	0%	86,882	26%	86,822	100%	0	0%	86,882	11%	86,882	100%
Total operating expenses	<u>\$239,261</u>	100%	<u>335,017</u>	100%	<u>95,756</u>	40%	<u>\$676,169</u>	100%	<u>760,199</u>	100%	<u>84,030</u>	12%

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, content and license expenses, development, upgrade and technical support service fees, depreciation and amortization expenses, and facilities expenses.

Product development expenses were \$105.2 million and \$289.4 million, respectively, for the three and nine months ended September 30, 2017 compared to \$90.0 million and \$261.6 million, respectively, for the corresponding periods in 2016.

The increase in product development expenses from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$15.2 million. The increase mainly consisted of a \$8.6 million increase in content and license expenses, and a \$7.4 million increase in salary and benefits expense, offset by a \$1.9 million decrease in share-based compensation expense.

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The increase in product development expenses from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$27.8 million. The increase mainly consisted of a \$15.2 million increase in content and license expenses, a \$8.0 million increase in salary and benefits expense, a \$3.7 million increase in share-based compensation expense, and a \$2.5 million increase in technical service fees, offset by a \$2.0 million decrease in depreciation and amortization expense.

Sales and Marketing Expenses

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

Sales and marketing expenses were \$111.9 million and \$296.9 million, respectively, for the three and nine months ended September 30, 2016, compared to \$110.6 million and \$318.6 million, respectively, for the corresponding periods in 2016.

The increase in sales and marketing expenses from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$1.3 million. The increase mainly consisted of a \$2.8 million increase in advertising and promotional expenditures, offset by a \$0.7 million decrease in travelling and entertainment expense, a \$0.4 million decrease in office expense, and a \$0.4 million decrease in share-based compensation expense.

The decrease in sales and marketing expenses from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$21.7 million. The decrease mainly consisted of a \$16.1 million decrease in advertising and promotional expenditures, and a \$5.4 million decrease in salary and benefits expense.

General and Administrative Expenses

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

General and administrative expenses were \$31.0 million and \$87.0 million, respectively, for the three and nine months ended September 30, 2017, compared to \$38.7 million and \$95.9 million, respectively, for the corresponding periods in 2016.

The decrease in general and administrative expenses from the three months ended September 30, 2016 to the three months ended September 30, 2017 was \$7.7 million. The decrease mainly consisted of a \$4.3 million decrease in share-based compensation expense, a \$1.9 million decrease in technical service fees, and a \$1.3 million decrease in salary and benefits expense, offset by a \$0.6 increase in facilities expense.

The decrease in general and administrative expenses from the nine months ended September 30, 2016 to the nine months ended September 30, 2017 was \$8.9 million. The decrease mainly consisted of a \$6.5 million decrease in salary and benefits expense, and a \$5.4 million decrease in professional service fees, offset by a \$5.2 million increase in share-based compensation expense.

Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions

In the third quarter of 2017, Changyou recognized goodwill impairment associated with MoboTap. For the online card and board games conducted by MoboTap, due to reinforced restrictions the Chinese regulatory authorities imposed on online card and board games, some of Changyou's key distribution partners informed Changyou that they had decided to stop the distribution and promotion of card and board games in the third quarter of 2017, which had an adverse impact on MoboTap's current performance, and also increased the uncertainty for its future operations and cash flow. As a result, Changyou determined that it is unlikely for MoboTap to gain users and grow its online card and board games revenues in China. Changyou management performed an impairment test in the third quarter of 2017 using the discounted cash flow method, and impairment charges of \$86.9 million were recognized to reflect the fair value of the MoboTap business, of which an \$83.5 million impairment loss was recognized for goodwill and a \$3.4 million impairment loss was recognized for intangible assets.

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Share-based Compensation Expense

Share-based compensation expense was recognized in costs and expenses for the three and nine months ended September 30, 2016 and the three and nine months ended September 30, 2017, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Share-based compensation expense				
Cost of revenues	\$ 295	\$ 281	\$ 294	\$ 696
Product development expense	4,105	2,247	5,801	9,499
Sales and marketing expenses	752	344	927	1,939
General and administrative expenses	8,018	3,682	9,125	14,330
	<u>\$ 13,170</u>	<u>\$ 6,554</u>	<u>\$16,147</u>	<u>\$26,464</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2017	2016	2017
Share-based compensation expense				
For Sohu (excluding Sohu Video) share-based awards	\$ 5,639	\$4,086	\$ 4,749	\$ 4,088
For Sogou share-based awards (2)	180	310	2,505	5,302
For Changyou share-based awards	7,202	2,208	9,340	17,223
For Sohu Video share-based awards (1)	149	(50)	(447)	(149)
	<u>\$13,170</u>	<u>\$6,554</u>	<u>\$16,147</u>	<u>\$26,464</u>

Note (1): The negative amount represented re-measured compensation expense based on the then-current fair value of the awards on the reporting date.

Note (2): Compensation expense for Sogou share-based awards also includes compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses and compensation expense of \$4.0 million, recognized in the first quarter of 2017 in connection with Sogou's repurchase of Sogou Class A Ordinary Shares from the former President and Chief Financial Officer of the Sohu Group, which is equal to the excess of the repurchase price over the fair value of the Sogou Class A Ordinary Shares as of the repurchase date.

As of September 30, 2017, unrecognized share-based compensation expense for Sohu (excluding Sohu Video), Sogou and Changyou share-based awards was as follows (in thousands):

Unrecognized share-based compensation expense	As of September 30, 2017
For Sohu (excluding Sohu Video) share-based awards	\$ (1,975)
For Sogou share-based awards (3)	86
For Changyou share-based awards	7,024
	<u>\$ 5,135</u>

Note (3): Includes the unrecognized compensation expense for employees who transferred from Tencent with Soso search and search-related businesses.

Operating Profit/(Loss)

For the three and nine months ended September 30, 2017, we had an operating loss of \$81.4 million and \$168.3 million, respectively, compared to an operating loss of \$51.6 million and \$65.5 million, respectively, for the corresponding periods in 2016.

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Other Income / (Loss)

We had other loss of \$5.1 million and other income of \$2.3 million, respectively, for the three and nine months ended September 30, 2017, compared to other income of \$3.7 million and other loss of \$17.0 million, respectively, for the corresponding periods in 2016. The change for the three months ended September 30, 2017, was mainly due to a \$5.8 million impairment loss recognized in the third quarter of 2017 related to Keyeast. The change for the nine months ended September 30, 2017, was mainly due to a \$27.8 million one-time expense recognized in the second quarter of 2016 related to a donation by Sogou to Tsinghua University related to setting up a joint research institute focusing on artificial intelligence technology, as well as a \$5.8 million impairment loss recognized in the third quarter of 2017 related to Keyeast.

Interest Income

Interest income was \$6.5 million and \$16.8 million, respectively, for the three and nine months ended September 30, 2017, compared to \$6.3 million and \$17.4 million, respectively, for the corresponding periods of 2016.

Interest Expense

Interest expense was \$1.1 million and \$1.5 million, respectively, for the three and nine months ended September 30, 2017, compared to \$0.2 million and \$1.2 million, respectively, for the corresponding periods of 2016.

Income Tax Expense

Income tax expense was \$15.9 million and \$39.4 million, respectively, for the three and nine months ended September 30, 2017, compared to \$1.0 million and \$15.3 million, respectively, for the corresponding periods in 2016.

The increase in income tax expense was mainly due to an increase in online game revenues as a result of the launch of Changyou's new mobile game Legacy TLBB in the second quarter of 2017, offset by a reversal of PRC income tax expense of \$5.1 million in the third quarter of 2017 for the preferential tax rate that one of Changyou's subsidiaries received in 2017 as a KNSE for 2016.

Net Loss

For the three and nine months ended September 30, 2017, we had net loss of \$102.0 million and \$200.4 million, respectively, compared to net loss of \$42.0 million and \$77.9 million, respectively, for the corresponding periods of 2016.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest was \$1.9 million and \$60.0 million, respectively, for the three and nine months ended September 30, 2017 compared to \$32.8 million and \$80.2 million, respectively, for the corresponding periods in 2016.

Net Loss Attributable to Sohu.com Inc.

As a result of the foregoing, we had a net loss attributable to Sohu.com Inc. of \$104.0 million and \$260.4 million, respectively, for the three and nine months ended September 30, 2017, compared to a net loss attributable to Sohu.com Inc. of \$74.8 million and \$158.1 million, respectively, for the corresponding periods of 2016.

LIQUIDITY AND CAPITAL RESOURCES

Resources Analysis

Liquidity Sources and Balances

Our principal sources of liquidity are cash and cash equivalents, short-term investments, and cash flows generated from our operations. Cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash. Short-term investments comprise investment instruments issued by commercial banks in China, with a variable interest rate indexed to performance of underlying assets and maturity dates within one year.

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As of September 30, 2017, we had cash and cash equivalents of approximately \$1.0 billion, and short-term investments of \$304.3 million. Of our cash and cash equivalents, \$430.4 million was held in financial institutions inside Mainland China and \$610.2 million was held in financial institutions outside of Mainland China. Our VIEs held \$55.4 million of our cash and cash equivalents and \$985.2 million was held outside of our VIEs.

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

See “Restrictions and Limitations on Cash Available to Sohu.com Inc.” below and Item 3 “Quantitative and Qualitative Disclosure About Market Risk - Foreign Currency Exchange Rate Risk.”

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2017 (in thousands):

As of September 30,	2017	2018	2019	2020	2021	Thereafter	Total Payments Required
Purchase of cinema advertisement slot rights	15,795	78,225	43,686	20,124	2,858	79	160,767
Purchase of content and services - video	27,087	16,379	18,718	580	0	0	62,764
Purchase of bandwidth	26,827	13,771	1,261	1,103	322	0	43,284
Operating lease obligations	4,290	14,417	3,234	1,032	60	10	23,043
Expenditures for operating rights for licensed games with technological feasibility	529	19,154	0	0	0	0	19,683
Purchase of content and services - others	5,766	2,483	298	59	27	0	8,633
Fees for operating rights for licensed games in development	1,362	1,182	0	0	0	0	2,544
Expenditures for rights to titles of games in development	259	1,233	0	0	0	0	1,492
Others	3,596	424	87	0	0	0	4,107
Total Payments Required	<u>85,511</u>	<u>147,268</u>	<u>67,284</u>	<u>22,898</u>	<u>3,267</u>	<u>89</u>	<u>326,317</u>

Cash Generating Ability

Our cash flows are summarized below (in thousands):

	Nine Months Ended September 30,	
	2016	2017
Net cash provided by operating activities	\$ 214,224	\$ 83,972
Net cash used in investing activities	(9,046)	(185,233)
Net cash provided by/(used in) financing activities	(327,591)	57,265
Effect of exchange rate change on cash and cash equivalents	(20,427)	21,919
Reclassification of cash and cash equivalents to held-for-sale assets	(10,280)	11,684
Net decrease in cash and cash equivalents	(153,120)	(10,393)
Cash and cash equivalents at beginning of period	1,245,205	1,050,957
Cash and cash equivalents at end of period	<u>\$1,092,085</u>	<u>\$1,040,564</u>

Net Cash Provided by Operating Activities

For the nine months ended September 30, 2017, \$84.0 million net cash provided by in operating activities was primarily attributable to our net loss of \$200.4 million, adjusted by (i) the add back of non-cash items consisting of \$171.9 million in depreciation and amortization, \$86.9 million in impairment loss of goodwill and impairment of acquired intangible assets via acquisition of businesses, \$45.0 million in impairment of other intangible assets and other assets, \$22.5 million in share-based compensation expense, \$5.8 million in impairment of available-for-sale securities, \$4.4 million in provision for allowance for doubtful accounts, and \$0.9 million in investment loss from equity investments, (ii) offset by \$5.6 million in change in fair value of financial instruments, and \$0.6 million of other items. A decrease in cash from \$46.8 million in working capital items is also included in operating cash flow.

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For the nine months ended September 30, 2016, \$214.2 million net cash provided by operating activities was primarily attributable to our net loss of \$77.9 million, adjusted by (i) the add back of non-cash items consisting of \$159.5 million in depreciation and amortization, \$16.1 million share-based compensation expense, \$6.0 million in impairment of intangible assets, \$4.3 million in provision for allowance for doubtful accounts, and \$0.7 million other items, (ii) offset by \$7.7 million in change in fair value of short-term investments. The increase in cash from \$113.2 million working capital items is also included in operating cash flow.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2017, \$185.2 million net cash used in investing activities was primarily attributable to (i) \$568.7 million used in purchase of financial instruments, \$111.1 million used in purchase of fixed assets and intangible assets, \$7.7 million used in the purchase of a long-term investment, and \$2.9 million in payments for other investing activities, (ii) offset by \$500.3 million in proceeds from financial instruments, and \$4.9 million from loan repayment to Changyou by a third party.

For the nine months ended September 30, 2016, \$9.0 million net cash used in investing activities was primarily attributable to (i) \$282.0 million used in the purchase of financial instruments, \$224.5 million used in the purchase of fixed assets and intangible assets, \$18.1 million used in a matching loan from Changyou to SoEasy, and \$12.9 million used in the purchase of long-term investments, (ii) offset by \$295.6 million in proceeds from financial instruments, \$225.5 million from withdrawal of restricted time deposits originally used as collateral for Changyou loans from offshore banks, \$3.6 million from loan repayment by a third party to Changyou, and \$3.8 million cash received from other investing activities.

Net Cash Provided by / (Used in) Financing Activities

For the nine months ended September 30, 2017, \$57.3 million net cash provided by financing activities was primarily attributable to (i) a \$67.8 million in proceeds from a short-term bank loan and \$0.5 million received from exercise of share-based awards in a subsidiary, (ii) offset by \$6.9 million used in repayments of loans from offshore banks, \$3.2 million used in the repurchase of Sogou Class A Common Shares from a noncontrolling shareholder, and \$0.9 million used in other investing activities.

For the nine months ended September 30, 2016, \$327.6 million net cash used in financing activities was primarily attributable to (i) \$344.5 million used in repayments of Changyou loans from offshore banks, (ii) offset by \$16.9 million Changyou received from the matching loan with SoEasy.

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

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

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

PRC Regulations Related to Profit Appropriation, Withholding Tax on Dividends and Foreign Currency Exchange

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

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The CIT Law imposes a 10% withholding income tax on dividends distributed by foreign-invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the “Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital” if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to withholding tax at a rate of 10%. As of September 30, 2017, we had accrued deferred tax liabilities in the amount of \$29.5 million for withholding taxes associated with dividends paid by Changyou’s Mainland China-based WFOEs to Changyou’s Hong Kong subsidiary.

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

PRC Restrictions Related to Our VIE Structure

Substantially all of our operations are conducted through our VIEs, which generate most of our revenues. Although our subsidiaries received or absorbed a majority of the VIEs’ profits or losses pursuant to contractual agreements between the VIEs and our PRC subsidiaries providing for payments to the subsidiaries in return for services provided to the VIEs by the PRC subsidiaries, significant cash balances remained in our VIEs as of September 30, 2017. As our VIEs are not owned by our PRC subsidiaries, the VIEs are not able to make dividend payments to the subsidiaries. Therefore, in order for Sohu.com Inc. or our subsidiaries outside of Mainland China to receive any dividends, loans or advances from our PRC subsidiaries, we will need to rely on these contractual payments made by our VIEs to our PRC subsidiaries. Depending on the nature of services provided by our PRC subsidiaries to their corresponding VIEs, certain of these payments will subject to PRC taxes, such as VAT, which will effectively reduce the amount that the PRC subsidiary receives from its corresponding VIE. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of up to 35%. To the extent that portions of its U.S. taxable income, such as Subpart F income or a dividend, are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may be able to claim foreign tax credits to offset its U.S. income tax liabilities. Any remaining liabilities are accrued in our consolidated statements of comprehensive income and estimated tax payments are made when required by U.S. law.

In accordance with U.S. GAAP, we do not provide for U.S. federal income taxes or tax benefits on the undistributed earnings or losses of our non-U.S. subsidiaries or consolidated VIEs because, for the foreseeable future, we do not have the intention to repatriate those undistributed earnings or losses to the U.S. (except that, under certain circumstances, we may repatriate to the U.S. income that was previously included in our income for U.S. corporate income tax purposes). However, certain activities conducted in the PRC may give rise to U.S. corporate income tax, even if there are no distributions to Sohu.com Inc. U.S. corporate income taxes would be imposed on Sohu.com Inc. when its subsidiaries that are controlled foreign corporations (“CFCs”) generate income that is subject to Subpart F of the U.S. Internal Revenue Code (“Subpart F”). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of our investments is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F is taxable in the U.S. at federal corporate income tax rates of up to 35%. Subpart F income also includes certain income from intra-Group transactions between Sohu.com Inc.’s non-U.S. subsidiaries and VIEs and Changyou’s non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.’s non-U.S. subsidiaries or VIEs make an “investment in U.S. property,” such as holding the stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. has not had to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.’s taxable income in the U.S. The CFC look-through rule, which is currently scheduled to expire for taxable years beginning after December 31, 2019, has been extended several times by the U.S. Congress. Unless further extended, the CFC look-through rule will be available for Sohu.com Inc.’s CFC subsidiaries and their VIEs only through their taxable years ending November 30, 2020.

Dividend Policy

The Sohu Group intends to retain all available funds and any future earnings for use in the operation and expansion of its own business, and does not anticipate paying any cash dividends on Sohu.com Inc.'s common stock for the foreseeable future. Future cash dividends distributed by Sohu.com Inc., if any, will be declared at the discretion of Sohu.com Inc.'s Board of Directors and will depend upon future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." This guidance supersedes current guidance on revenue recognition in Topic 605, "Revenue Recognition." In addition, there are disclosure requirements related to the nature, amount, timing, and uncertainty of revenue recognition. In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of ASU No. 2014-09 for all entities by one year. For publicly-traded business entities that follow U.S. GAAP, the deferral results in the new revenue standards' being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for interim and annual periods beginning after December 15, 2016. We will apply the new revenue standard beginning January 1, 2018, and will not early adopt. We have set up an implementation team that is currently in the process of analyzing each of our revenue streams in accordance with the new revenue standard to determine the impact on our consolidated financial statements. We plan to continue the evaluation, analysis, and documentation of our adoption of ASU 2014-09 (including those subsequently issued updates that clarify ASU 2014-09's provisions) throughout 2017 as we work towards the implementation and finalize our determination of the impact that the adoption will have on our consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities. On January 5, 2016, the FASB issued ASU 2016-01 ("ASU 2016-01"), Recognition and Measurement of Financial Assets and Financial Liabilities, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value, with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are evaluating the impact of adopting this standard on our consolidated financial statements.

Leases. On February 25, 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), Leases. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. ASU 2016-02 is effective for publicly-traded companies for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Compensation – Stock Compensation. On March 30, 2016, the FASB issued ASU 2016-09 ("ASU 2016-09"), Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which relates to the accounting for employee share-based compensation. This standard addresses several aspects of the accounting for share-based award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; (c) classification in the statement of cash flows; and (d) accounting for forfeitures of share-based awards. This guidance became effective for reporting periods beginning after December 15, 2016. We adopted this new guidance on January 1, 2017. We elected to continue to account for forfeitures by estimating expected forfeitures, and this standard does not have a material impact on our consolidated financial statements.

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Financial Instruments-Credit Losses. In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements and related disclosures.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*, which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements and related disclosures.

Statement of Cash Flows (Topic 230): Restricted Cash. In November 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim period within those fiscal years. Early adoption is permitted, including adoption in an interim period. The standard should be applied to each period presented using a retrospective transition method. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Business Combinations (Topic 805): Clarifying the Definition of a Business. In January 2017, the FASB issued Accounting Standards Update (“ASU”) No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The standard should be applied prospectively on or after the effective date. We will evaluate the impact of adopting this standard prospectively upon any transactions of acquisitions or disposals of assets or businesses.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, *“Simplifying the Test for Goodwill Impairment.”* The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

FOREIGN CURRENCY EXCHANGE RATE RISK

While our reporting currency is the U.S. dollar, to date the majority of our revenues and costs are denominated in RMB and a significant portion of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline.

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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, and 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 June 19, 2010, the People’s Bank of China announced that it had decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB’s exchange rate more flexible, the People’s Bank of China ruled out any sharp fluctuations in the currency or a one-off adjustment. On March 17, 2014, 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 to 2%. In the long term, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies, depending on the market supply and demand with reference to a basket of currencies.

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

The following table sets forth a summary of our foreign currency sensitive financial instruments as of September 30, 2017. These financial instruments are recorded at their fair value.

	Denominated in (in thousands)				Total
	US\$	RMB	HK\$	Others	
Cash and cash equivalents	\$604,473	\$ 428,625	\$6,202	\$1,264	\$1,040,564
Short-term investments	0	304,264	0	0	304,264
Accounts receivable, net	3,877	275,083	1,156	256	280,372
Prepaid and other current assets	5,751	222,123	(136)	468	228,206
Available-for-sale equity securities	20,833	0	0	0	20,833
Restricted time deposits	240	30	0	0	270
Current liabilities	43,520	1,050,660	3,422	510	1,098,112
Long-term accounts payable	0	778	0	0	778

INTEREST RATE RISK

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

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

INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 1.5% in the nine months ended September 30, 2017, compared to an increase of 2.0% in the nine months ended September 30, 2016. While the increase for the nine months of 2017 represented a decline in the rate of inflation compared to the corresponding period in 2016, there may be increases in the rate of inflation in the future that could have an adverse effect on our business.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Acting Chief Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report (the “Evaluation Date”), have concluded that as of the Evaluation Date our disclosure controls and procedures were effective and designed to ensure that all material information relating to Sohu.com Inc. 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 SEC 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

From time to time we become subject to legal proceedings and claims in the ordinary course of our business. Such legal proceedings and claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

ITEM 1A. RISK FACTORS

The risk factor entitled “*PRC laws and regulations mandate complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to make acquisitions in China*” in our annual report on Form 10-K for the year ended December 31, 2016 is deleted and replaced with the following as of the date of the filing of this report.

PRC laws and regulations mandate complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to make acquisitions in China.

PRC laws and regulations, such as the M&A Rules, which were jointly issued by six PRC regulatory agencies on August 8, 2006 and were amended on June 22, 2009, the Anti-Monopoly Law, Circular 6 and the MOFCOM Security Review Rules, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to a merger control security review. The MOFCOM Security Review Rules, effective from September 1, 2011, further provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review by the MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements of offshore transaction. Factors that the MOFCOM considers in its review are whether (i) an important industry is involved, (ii) such transaction involves factors that have had or may have an impact on national economic security and (iii) such transaction will lead to a change in control of a domestic enterprise that holds a well-known PRC trademark or a time-honored PRC brand. If a business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company. Complying with the requirements of the relevant regulation to complete any such transaction could be time-consuming, and any required approval process, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

Sogou entered into a series of transactions with Tencent in 2013 that resulted in Tencent being Sogou’s largest shareholder and a Tencent group entity also holding a 45% interest in Sogou Information. If Tencent’s investment in Sogou ended due to competitive or regulatory reasons, Sogou’s collaboration with Tencent may also be adversely affected.

The risk factors with the following headings included in our annual report on Form 10-K for the year ended December 31, 2016, which are primarily related to Sogou, are updated and expanded as of the date of the filing of this report with the risk factors set forth below under the heading “Risks Related to Sogou Inc.,” and accordingly are deleted as of such date.

“Our search and search-related revenues may not sustain their growth or may decrease in the future.”

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“If Sogou’s collaboration with Tencent is terminated or curtailed, Sogou’s business would likely be adversely affected.”

“If we fail to retain key agencies or attract additional agencies for sales to our search advertisers, our search business may be adversely affected.”

“We rely on our Website Alliance members for a significant portion of our search revenues. If we fail to retain existing Website Alliance members or attract additional members, our revenues and growth may be adversely affected.”

“If we fail to detect significant fraudulent click-through, we could lose the confidence of our search advertisers and our search revenues could decline.”

“Regulations relating to sponsored search may adversely affected our search and search-related revenues and may continue to have an adverse effect on such revenues.”

The following risk factors related to Sogou are added as of the date of the filing of this report.

Risks Related to Sogou Inc.

The online search industry in China is extremely competitive, and if Sogou is unable to compete successfully, it will be difficult for it to maintain or increase its revenues and profitability.

Sogou operates its business in an extremely competitive industry. Sogou faces intense competition in every aspect of its business, including competition for users, advertisers, technology, and talent. Sogou faces competition for its search and search-related services in China primarily from Baidu Inc., or Baidu, and ShenMa, operated by UCWeb Inc., or UCWeb, which is a subsidiary of Alibaba Group Holding Limited, or Alibaba. Both Baidu and Alibaba have considerably greater financial and technical resources available to them than Sogou does. Sogou also faces competition for both users and advertisers from websites and mobile applications that provide specialized search services in China, including travel services and information platforms such as Ctrip and Qunar; group-buy platforms such as Meituan Dianping; online classified advertisement platforms such as 58.com; and newsfeeds such as Toutiao. Sogou competes for advertisers not only with Internet companies, but also with other types of advertising media such as newspapers and magazines, billboards and bus advertisements, television, and radio. It is also possible that multinational businesses with considerably greater financial and other resources than Sogou’s could expand their offerings in China, making it harder for Sogou to gain market share.

Sogou’s existing and potential competitors compete with it for users and advertisers on the basis of the quality and quantity of search results; the features, availability, and ease of use of products and services; and the number and quality of advertising distribution channels. They also compete with Sogou for talent with technological expertise, which is critical to the sustained development of Sogou’s products and services. If Sogou is unable to differentiate itself from its competitors in each of these areas, it may not be able to maintain or increase its user and advertiser base, which would have an adverse impact on its business, results of operations, and growth potential. In addition, Sogou may have difficulty in successfully promoting and differentiating its new products, services, and features as a result of the market power of its competitors.

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Sogou must expand its user base to grow its business, and must continually innovate and adapt its business in an evolving online search industry in order to do so. If Sogou fails to continue to innovate and introduce products and services to enhance user experience, it may not be able to generate sufficient user traffic to remain competitive.

The Internet industry in general and the online search industry in particular have been undergoing rapid changes in technology and in user preferences. Sogou's future success in expanding its user base will depend on its ability to respond to, as well as anticipate and apply, rapidly evolving technologies. Sogou must adapt its existing products and services and develop new products and product areas that will meet the evolving demands of users, deliver attractive experiences for its users that enhance user engagement, and cause its users to return to its services and increase the frequency of their searches on its platforms. Sogou's development and introduction of new products, features, and services are subject to additional risks and uncertainties. Unexpected technical, operational, distribution, or other problems could delay or prevent the development and introduction of one or more of Sogou's currently planned and any future new products and services. There are constant innovations in the market regarding search services, search and search-related advertising, and providing information to users. If Sogou is unable to predict user preferences or industry changes, or if it is unable to modify its products and services on a timely basis, it may lose users. Sogou's operating results will also suffer if Sogou's innovations are not responsive to the needs of its users, are not appropriately timed with market opportunity, or are not effectively brought to market. As search technology continues to develop, there may be offered in the China market products and services that are, or that are perceived to be, substantially similar to or better than those generated by Sogou's search services. As worldwide focus on the development of AI technologies has intensified, it has become increasingly important to apply AI technologies to online search products and features in order to attract and retain users, and Sogou may not be able to apply such technologies successfully.

Sogou's competitors may develop and offer new products, services, and features that are similar to Sogou's and may introduce them to the market before Sogou can, and such new offerings from its competitors may be found by users to be more attractive than Sogou's. Moreover, we cannot be sure that any of Sogou's new products, services, and features will attract additional users and lead to the generation of incremental revenue.

As users increasingly use mobile devices to access search services and other Internet services in China, Sogou will need to continue to design, develop, promote, and operate new products and services tailored for mobile devices. Sogou's design and development of new products and services that are optimized for mobile devices may not be successful. Sogou may encounter difficulties with the installation and delivery of such new products and services, and they may not function smoothly. As new mobile devices are released or updated, Sogou may encounter problems in developing and upgrading its products and services for the new releases and updates, and it may need to devote significant resources to such development and upgrades. If Sogou is not successful in adapting its offerings for mobile devices as described above, maintenance and growth of its business will be impeded.

If Sogou's collaboration with Tencent is terminated or curtailed, its business and prospects for growth will be adversely affected.

Sogou has extensive collaboration with Tencent, one of Sogou's largest shareholders. Sogou Search is the default general search engine in various Tencent products that provide general search offerings, such as Mobile QQ Browser, qq.com, and the PC Web directories daohang.qq.com and hao.qq.com. Approximately 38.2% of Sogou's total search traffic, measured by page views, was contributed by Tencent's Internet properties in June 2017. Sogou Weixin Search is currently the sole general search engine with access to all content published on Weixin Official Accounts, but it is possible that Tencent will grant such access to other general search engines. We cannot assure you that Sogou will be able to maintain the current level of cooperation with Tencent in the future. If Sogou's collaborative relationship with Tencent is terminated or curtailed due to Tencent's initiating its own general search service or partnering with other search engine companies, or if any of the commercial terms were to be revised or made less favorable to Sogou, or if Tencent does not continue to deliver to Sogou an adequate level of access to its platforms or adequately promote Sogou's products and services, Sogou's business and prospects will be adversely affected.

Sogou's efforts to expand its collaboration with Tencent may not be successful.

In October 2017, Tencent began testing the integration of Sogou Search into Weixin/WeChat, whereby its users can use Sogou Search as a general search function from within Weixin/WeChat to access information outside Weixin/WeChat. Sogou intend to discuss commercial arrangements with Tencent after completion of product testing and optimization. However, we cannot assure you that product testing will be successful or that Sogou will be able to reach agreement with Tencent as to commercial terms that would apply to such an integration. If the integration of Sogou Search into Weixin/WeChat is not successful or, even if it is successful, if Sogou is unable to agree with Tencent as to commercial terms and Tencent terminates the integration, Sogou will lose the potential to expand its user base by offering general search services in Weixin/WeChat to its users, which would have an adverse impact on Sogou's prospects for growth. In addition, although Tencent has agreed that Sogou Search will be offered as the default general search engine for Tencent products that offer general search functions, such agreement will terminate as to Weixin/WeChat (and as to Tencent products other than Mobile QQ Browser and PC Web navigation products) after September 2018, rather than 2023, if Tencent is able to demonstrate that offering Sogou Search as the default general search engine will "harm the user experience." It is difficult for us to predict the potential impact of the inclusion of Sogou Search as the default general search engine in Weixin/WeChat measured under the standard of "harm the user experience." Even if Sogou's general search engine is integrated into Weixin/WeChat, the potential for growth of Sogou's business through such integration will be limited if Tencent does not make Sogou Search the default general search engine and a Tencent search engine or a search engine of one of Sogou's competitors is given priority over Sogou's in Weixin/WeChat.

Sogou's existing business and its expansion strategy depend on certain additional key collaborative arrangements, and any inability to maintain or develop such relationships could have an adverse effect on Sogou's business and prospects for growth.

Sogou's existing business, and its strategy for developing its business, involve maintaining and developing various types of collaborations with third parties, which provide Sogou with access to additional user traffic, search services, products, and technology. For example, Sogou's Sogou Wise Doctor delivers healthcare information, and receives healthcare data, through partnerships that provide Sogou with access to articles written by physicians and to a PRC-government sponsored healthcare encyclopedia; Sogou's partnership with Zhihu provides Sogou with access to a knowledge-sharing platform; Sogou's partnership with Microsoft's Bing provides Sogou with the technology to provide its users with English content on the Internet that Sogou translates to Chinese in connection with its cross-language search service; and its partnership with China Literature enables Sogou's users to access literature from a large online collection. In addition, Sogou's various partnerships with third-party Internet properties provide its advertisers significant exposure to users beyond its core search user base. We consider these collaborations to be important to Sogou's ability to deliver attractive service, product, and content offerings to Sogou's users, in order to maintain and expand Sogou's user and advertiser bases, and we believe that it will continue to be important for Sogou to develop similar partnerships in the future. Sogou's inability to maintain and grow such relationships could have an adverse impact on its existing business and its growth prospects.

Sogou also has existing, and hopes to develop additional, relationships with mobile device manufactures for pre-installation of Sogou's search, input method, and related applications. If Sogou is unable to maintain and expand such relationships, the quality and reach of delivery of Sogou's services will be adversely affected, and it may also be difficult for Sogou to maintain and expand its user base and enhance awareness of its brand. In addition, Sogou's competitors may establish the same relationships as those Sogou has, which would tend to diminish any advantage it might otherwise gain from these relationships.

If Sogou fails to maintain and expand its collaborations with third-party operators of Internet properties, its revenues and growth may be adversely affected.

Sogou places certain of its advertisers' promotional links on the Internet properties of third parties, thereby expanding the base of users accessing the advertisements beyond Sogou's own user base, and increasing Sogou's pay-for-click revenues. If these third parties decide to use a competitor's or their own online search services, or do not prominently display Sogou's advertisements in comparison to those of other advertisers on their properties, or if Sogou fails to attract additional third-party operators of Internet properties, its advertising revenues and growth may be adversely affected.

Sogou may not be able to sustain its historical growth.

Sogou has grown significantly over a relatively short period. Sogou total search page views grew by 30.1%, and its mobile search page views grew by 78.9%, on an annualized basis from June 2014 to June 2017. Sogou revenues grew from US\$386.4 million for the year ended December 31, 2014, to US\$591.8 million for the year ended December 31, 2015, and to US\$660.4 million for the year ended December 31, 2016. Sogou revenues grew from US\$322.9 million for the six months ended June 30, 2016 to US\$373.2 million for the six months ended June 30, 2017. However, while this represented revenue growth of 53.2% from 2014 to 2015, Sogou's revenue growth decreased to 11.6% from 2015 to 2016, as its 2016 revenues were affected by tightened PRC regulation of the online advertising industry during 2016, which had an adverse impact on the search and search-related advertising market in China in general. See "PRC regulations relating to sponsored search have had, and may continue to have, an adverse effect on Sogou's results of operations." Sogou may not be able to sustain a rate of growth in future periods similar to that it experienced in the past, and its revenues may even decline. Accordingly, you should not rely on the results of any prior period as an indication of Sogou's future financial and operating performance.

Sogou depends on online advertising for a significant majority of its revenues. If Sogou fails to retain existing advertisers or attract new advertisers for its online advertising services, its business and growth prospects could be harmed.

Sogou earns most of its revenues from its search and search related advertising services. Advertisers will not use Sogou's services if they do not find them to be effective in producing a sufficient volume of click-throughs and desired results for advertisers. Sogou's advertisers are generally able to terminate their relationships with it at any time without penalty if they are not satisfied with its services, choose its competitors for similar services, or advertise in media channels other than Internet search. Therefore, it could be difficult for Sogou to maintain or increase its advertiser base, and its revenues and profits could decline or fail to increase.

Sogou relies on third-party advertising agencies for most of its online advertising revenues.

Sogou relies heavily on third-party advertising agencies for its sales to its advertisers. It is important that Sogou maintain good relationships with these agencies. Sogou does not enter into long-term agreements with any of the advertising agencies and we cannot be sure that Sogou will continue to maintain favorable relationships with them. Further, Sogou provides various types of discounts and rebates to advertising agencies in order to incentivize them to maximize the volume of advertising business that they bring to Sogou. In order to retain or properly incentivize Sogou's advertising agencies, it may become necessary in the future for Sogou to increase the levels of such rebates and discounts, which could have an adverse effect on its results of operations.

If Sogou fails to maintain and enhance awareness of and loyalty to its brand, it will be difficult for it to maintain and increase its user and advertiser bases.

It is critical for Sogou to maintain and further enhance its brand if it is to succeed in expanding its user and advertiser bases. Sogou's success in promoting and enhancing its brand, and its ability to remain competitive, will depend on its success in delivering superior user experience and on its marketing efforts. Enhancing Sogou's brand awareness may require substantial marketing and promotion expenses. If Sogou is unable to maintain and enhance its brand, or incur significant marketing and promotion expenses that do not achieve anticipated business growth, or is subject to negative publicity that harms its brand, its business and results of operations may be adversely affected.

Sogou's success depends on the continuing efforts of its senior management team and key employees, and its business may be harmed if Sogou loses their services.

Sogou's business heavily depends upon the services of its key executives, particularly Xiaochuan Wang, its Chief Executive Officer. If any of Sogou's key executives is unable or unwilling to continue in his present position, joins a competitor, or forms a competing company, its business may be severely disrupted. Although executive officers have entered into employment agreements, confidentiality agreements, and non-competition agreements with Sogou, the degree of protection afforded to an employer pursuant to confidentiality and non-competition undertakings by persons employed in the PRC may be more limited when compared to the degree of protection afforded with respect to employees in some other jurisdictions. Sogou does not maintain key-man life insurance for any of its key executives.

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Sogou also relies on key highly-skilled personnel for its business. Given the competitive nature of the industry, and in particular Sogou's competitors' increasingly aggressive efforts to provide competitive compensation packages to attract talent in the markets where Sogou operates, it may be difficult for it to recruit and retain qualified personnel, and the risk of members of Sogou's key staff leaving it is high. Any such departure could have a disruptive impact on Sogou's operations, and if Sogou is unable to recruit, retain and motivate key personnel, Sogou may not be able to grow effectively.

Sogou's strategy of investments in and acquiring complementary businesses and assets may fail, which could result in impairment losses.

In addition to organic growth, Sogou may take advantage of opportunities to invest in or acquire additional businesses, services, assets or technologies. However, Sogou may fail to select appropriate investment or acquisition targets, or Sogou may not be able to negotiate optimal arrangements, including arrangements to finance any acquisitions. Acquisitions and the subsequent integration of new assets and businesses into Sogou's could require significant management attention and could result in a diversion of resources away from its existing business. Investments and acquisitions could result in the use of substantial amounts of cash, increased leverage, potentially dilutive issuances of equity securities, goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential liabilities of the acquired business, and the invested or acquired assets or businesses may not generate the financial results Sogou expect. Moreover, the costs of identifying and consummating these transactions may be significant. In addition to obtaining the necessary corporate governance approvals, Sogou may also need to obtain approvals and licenses from relevant governmental authorities for the acquisitions to comply with applicable laws and regulations, which could result in increased costs and delays.

Requirements of U.S. GAAP regarding the recognition of share-based compensation expense may adversely affect Sogou's results of operations and its competitiveness in the employee marketplace.

Sogou's performance is largely dependent on talented and highly-skilled individuals. Sogou's future success depends on its continuing ability to identify, develop, motivate, and retain highly-skilled personnel. Sogou has a history of using low or nominally-priced employee share options as an important component of competitive pay packages, in order to align its employees' interests with the its interests and those of its shareholders and to encourage quality employees to join and remain with Sogou. Sogou has adopted guidance on accounting for share-based compensation that requires the measurement and recognition of compensation expense for all share-based compensation based on estimated fair values. As a result, Sogou's operating results contain charges for share-based compensation expense related to employee share options. The historical and future recognition of share-based compensation in Sogou's statements of comprehensive income has had and will have an impact on its results of operations. On the other hand, if Sogou alters its employee share incentive plans to minimize the corresponding share-based compensation expense, it may limit Sogou's ability to continue to use share-based awards as a tool to attract and retain its employees, and it may adversely affect Sogou's operations. In addition, there may be future changes in the U.S. GAAP requirements for recognition of share-based compensation expense, which could have similar effects on Sogou's results operations and its competitiveness in the market for key employees.

Sogou's user metrics and other estimates are subject to inherent challenges in measuring its operating performance, which may harm its reputation.

Sogou regularly reviews MAU, DAU, number of advertisers, page views, and other operating metrics to evaluate growth trends, measure its performance, and make strategic decisions. These metrics are calculated using internal company data, have not been validated by an independent third party, and may not be indicative of Sogou's future financial results. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring how its platforms are used across a large population in China. For example, Sogou may not be able to distinguish individual users who have multiple accounts.

Errors or inaccuracies in Sogou's metrics or data could result in incorrect business decisions and inefficiencies. For instance, if a significant understatement or overstatement of active users were to occur, Sogou might expend resources to implement unnecessary business measures or fail to take required actions to remedy an unfavorable trend. If partners or investors do not perceive Sogou's user, geographic, or other operating metrics to accurately represent its user base, or if Sogou discover inaccuracies in its user, geographic, or other operating metrics, its reputation may be harmed.

Sogou may not be able to prevent others from making unauthorized use of its intellectual property, which could harm its business and competitive position.

We regard Sogou's patents, copyrights, trademarks, trade secrets, and other intellectual property as critical to its business. Unauthorized use of Sogou's intellectual property by third parties may adversely affect its business and reputation. Sogou relies on a combination of intellectual property laws and contractual arrangements to protect its proprietary rights. It is often difficult to register, maintain, and enforce intellectual property rights in the PRC. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation in the PRC. In addition, contractual agreements may be breached by counterparties, and there may not be adequate remedies available to it for any such breach. Accordingly, Sogou may not be able to effectively protect its intellectual property rights or to enforce its contractual rights in China. Policing any unauthorized use of Sogou's intellectual property is difficult and costly and the steps Sogou has taken may be inadequate to prevent the misappropriation of its intellectual property. In the event that Sogou resorts to litigation to enforce its intellectual property rights, such litigation could result in substantial costs and a diversion of its managerial and financial resources. We can provide no assurance that Sogou will prevail in such litigation. In addition, Sogou's trade secrets may be leaked or otherwise become available to, or be independently discovered by, its competitors.

Pending or future litigation could have an adverse impact on Sogou's financial condition and results of operations.

The online search industry in China is highly competitive and litigious. From time to time, Sogou has been, and may in the future be, subject to lawsuits brought by its competitors, individuals, or other entities against it. Sogou is currently involved in several lawsuits in PRC courts where its competitors instituted proceedings or asserted counterclaims against it and Sogou instituted proceedings or asserted counterclaims against its competitors. For example, there are various legal proceedings currently pending between Sogou and Baidu in which Sogou alleges that Baidu's input method infringes certain of Sogou's patents relating to Sogou Input Method and seeks monetary damages, while Baidu has asserted in counterclaims or in legal proceeding that it has initiated against it that Sogou Input Method infringes certain of its patents, and seeks monetary damages. In addition, Sogou is subject to ongoing unfair competition claims against it brought by Baidu, UCWeb, and Qihoo 360 Technology Co., Ltd., or Qihoo360, separately, in which they allege that certain functions of Sogou's Sogou Input Method unfairly divert users to Sogou, and seek monetary damages and cessation of the alleged unfair competitive practices.

Where Sogou can make a reasonable estimate of the liability relating to pending litigation against it and determine that an adverse liability resulting from such litigation is probable Sogou record a related contingent liability. As additional information becomes available, Sogou assess the potential liability and revise estimates as appropriate. However, due to the inherent uncertainties relating to litigation, the amount of Sogou's estimates may be inaccurate, in which case its financial condition and results of operation may be adversely affected. In addition, the outcomes of actions Sogou institutes may not be successful or favorable to it. Lawsuits against it may also generate negative publicity that significantly harms Sogou's reputation, which may adversely affect its user and advertiser base. In addition to the related cost, managing and defending litigation and related indemnity obligations can significantly divert Sogou's management's and Board of Directors' attention from operating its business. Sogou may also need to pay damages or settle lawsuits with a substantial amount of cash. While we do not believe that any currently pending proceedings are likely to have a material adverse effect on Sogou's business, financial condition, results of operations, and cash flows, if there were adverse determinations in legal proceedings against it, Sogou could be required to pay substantial monetary damages or adjust its business practices, which could have an adverse effect on its financial condition and results of operations, and cash flows.

Sogou is currently subject to, and in the future may from time to time face, intellectual property infringement claims, which could be time-consuming and costly to defend, and could have an adverse impact its financial position and results of operations, particularly if it is required to pay significant damages or cease offering any of its products or curtail any key features of its products.

We cannot be certain that the products, services, and intellectual property used in Sogou's normal course of business do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. Sogou currently are, and may in the future be, subject to claims and legal proceedings relating to the intellectual property of others in the ordinary course of its business, and may in the future be required to pay damages or to agree to restrict its activities. See "Pending or future litigation could have an adverse impact on Sogou's financial condition and results of operations." In particular, if Sogou is found to have violated the intellectual property rights of others, Sogou may be joined from using such intellectual property, may be ordered to pay damages, and may incur licensing fees or be forced to develop alternatives. Sogou may incur substantial expense in defending against third-party infringement claims, regardless of their merit. Successful infringement claims against it may result in substantial monetary liability or may materially disrupt the conduct of Sogou's business by restricting or prohibiting its use of the intellectual property in question.

Sogou may not have exclusive rights to technology, trademarks, and designs that are crucial to its business.

Sogou has applied for various patents relating to its business. While Sogou has succeeded in obtaining some patents, some of its patent applications are still under examination by the State Intellectual Property Office of the PRC. Approvals of Sogou's patent applications are subject to determinations by the State Intellectual Property Office of the PRC and relevant overseas authorities that there are no prior rights in the applicable territory. In addition, Sogou has applied for initial registrations in the PRC and overseas, and/or changes in registrations relating to transfers of Sogou's Sogou logos and other Sogou key trademarks in the PRC, and the corresponding Chinese versions of the trademarks, so as to establish and protect its exclusive rights to these trademarks. While Sogou has succeeded in registering the trademarks for most of these marks in the PRC under certain classes, the applications for initial registration, and/or changes in registrations relating to transfers, of some marks and/or of some of trademarks under other classes are still under examination by the Trademark Office of the State Administration for Industry and Commerce, or SAIC, and relevant overseas authorities. Approvals of Sogou's initial trademark registration applications, and/or of changes in registrations relating to such transfers, are subject to determinations by the Trademark Office of the SAIC and relevant overseas authorities that there are no prior rights in the applicable territories. We cannot assure you that these patent and trademark applications will be approved. Any rejection of these applications could adversely affect Sogou's rights to the affected technology, marks, and designs. In addition, even if these applications are approved, we cannot assure you that any issued patents or registered trademarks will be sufficient in scope to provide adequate protection of Sogou's rights.

If Sogou's search results contain information that is inaccurate or harmful to its users, its business and reputation may be adversely affected.

Sogou could be exposed to liability arising from its search results listings if information accessed through its services contains errors, and third parties may make claims against it for losses incurred in reliance on that information. Investigating and defending such claims could be expensive, even if they did not result in liability and Sogou does not carry any liability insurance against such risks.

In addition, if users do not perceive information that they access through Sogou's search services to be authoritative, useful, and trustworthy, Sogou may not be able to retain these users or attract additional users, and its reputation, business, and results of operation may be harmed. In addition, if such content contains inaccuracies, it is possible that users will seek to hold Sogou liable for damages because Sogou provides links to such content, even though such content is provided by third parties, and any negative publicity regarding the accuracy of such content could harm its reputation, and reduce user traffic. In addition, any negative publicity or incident involving Sogou's peer companies could have an adverse impact on its industry as a whole, which in turn could harm its reputation and reduce its user traffic. For example, in early 2016 it was widely reported that an unsuccessful experimental cancer treatment had been promoted in a sponsored search listing on third party's Internet property. Even though Sogou's search results listings were not involved, we believe that the broad negative publicity surrounding the incident adversely affected the reputation of the online search industry in China in general with an adverse impact on Sogou's user traffic and results of operations in 2016.

Sogou may be subject to regulatory investigations and sanctions for inappropriate or illegal content that is accessed through its search results.

The online search industry in China is subject to extensive regulation. If content accessed through Sogou's search services includes information that PRC governmental authorities find illegal or inappropriate, Sogou may be required to curtail or even shut down its search services, and Sogou may be subject to other penalties. Although Sogou seeks to prevent fraudulent or otherwise illegal or inappropriate websites and information from being included in its search results, such measures may not be effective.

Sogou may be subject to potential liability for claims that search results violate the intellectual property rights of third parties.

It is possible that content that is made available by Sogou through its search results may violate the intellectual property rights of third parties. PRC laws and regulations are evolving, and uncertainties exist with respect to the legal standards for determining the potential liability of online search service providers for search results that provide links to content on third-party websites that infringes copyrights of third parties. In December 2012, the Supreme People's Court of the PRC promulgated a judicial interpretation providing that PRC courts will place the burden on Internet service providers to remove not only links or content that has been specifically-mentioned in notices of infringement from persons and entities claiming copyright in such content, but also links or content that the providers "should have known" contained infringing content. This interpretation could subject it to significant administrative burdens and might expose it to civil liability and penalties. Further, Sogou relies on content provided by professional researchers and writers, either developed by the outlets themselves or adapted from content of parties separate from such outlets, and it is difficult for it to fully monitor such content, which could make it more vulnerable to potential infringement claims.

Sogou may be subject to legal liability associated with online activities on its platforms.

Sogou hosts and provides a wide variety of products and services that enable advertisers to advertise products and services, and users to exchange information and engage in various online activities. Sogou may be subject to claims, investigations, or negative publicity relating to such activities. PRC laws and regulations relating to the liability of providers of online products and services for activities of their users are undeveloped, and their current and future reach are unclear. Sogou also place advertisements on third-party Internet properties, and Sogou offer products and services developed or created by third parties. Sogou may be subject to claims concerning these products and services based on its involvement in providing access to them, even if it does not offer the products and services directly. Sogou could be required to spend considerable financial and managerial resources defending any such claims, and they could result in its having to pay monetary damages or penalties or ceasing certain aspects of its business, which could have an adverse effect on its business and results of operations.

Privacy concerns or security breaches relating to Sogou's platforms could damage its reputation, deter current and potential users and advertisers from using its products and services, and expose it to legal penalties and liability.

Sogou collects, processes, and stores on its servers significant amounts of data concerning its users. While Sogou has taken steps to protect its user data, its security measures could be compromised, because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, and Sogou may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, Sogou is subject to various regulatory requirements relating to the security and privacy of such data, including restrictions on the collection and use of personal information of users and steps Sogou must take to prevent personal data from being divulged, stolen, or tampered with. Regulatory requirements regarding the protection of such data are constantly evolving and can be subject to significant change, making the extent of Sogou's responsibility in that regard uncertain. For example, the PRC Cybersecurity Law became effective in June 2017, but it is unclear as to the circumstances and standard under which the law would apply and violations would be found, and there are great uncertainties as to the interpretation and application of the law. It is possible that Sogou's data protection practice is or will be inconsistent with regulatory requirements. Complying with such requirements could cause Sogou to incur substantial expenses or to alter or change its practice in a manner that could harm its business. Any systems failure or compromise of Sogou's security, including through employee error, that results in the release of its user data could seriously harm its reputation and brand, impair its ability to retain and attract users and advertisers, expose it to liability to users whose data is released, and subject it to sanctions and penalties from regulatory authorities. Sogou also could be liable for any security breaches of its advertisers' confidential information. Any security breaches exposing such information could damage Sogou's reputation and deter current and potential users and advertisers from using its services.

Sogou's network operations may be vulnerable to hacking and viruses, which may reduce the use of its products and services and expose it to liability.

Sogou's user traffic may decline if any well-publicized compromise of security occurs. "Hacking" involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware, or other computer equipment. Techniques used by hackers to obtain unauthorized access or sabotage systems change frequently and often are not recognized until launched against a target, which means that Sogou may be unable to anticipate new hacking methods or implement adequate security measures. Hackers, if successful, could misappropriate proprietary information or cause disruptions in Sogou's service. Sogou may be required to expend capital and other resources to protect its Internet platforms against hackers, and measures Sogou may take may not be effective. In addition, the inadvertent transmission of computer viruses could expose Sogou to a risk of loss or litigation and possible liability, as well as damage its reputation and decrease its user traffic.

Sogou's business may be adversely affected by third-party software applications or practices that interfere with its receipt of information from, or provision of information to, its users, which may impair its users' experience.

Sogou's business may be adversely affected by third-party software applications, which may be unintentional or malicious, that make changes to its users' PCs or mobile devices and interfere with its products and services. These software applications may change Sogou's users' experience by hijacking queries, altering or replacing its search results, or otherwise interfering with its ability to connect with its users. Such interference can occur without disclosure to or consent from users, and users may associate any resulting negative experience with Sogou's products and services. Such software applications are often designed to be difficult to remove, block, or disable. Further, software loaded on or added to mobile devices on which Sogou's search or other applications, such as Sogou Input Method, are pre-installed may be incompatible with or interfere with or prevent the operation of such applications, which might deter the owners of such devices from using Sogou's services.

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In addition, third-party website owners, content providers, and developers may implement applications and systems that interfere with Sogou's ability to crawl and index their webpages and content, which is critical to the operation of its search services. If Sogou is unable to successfully prevent or limit any such applications or systems that interfere with its products and services, or if a significant number of third-party website owners, content providers, and developers prevent it from indexing and including their webpages and content in its search results, Sogou's ability to deliver high-quality search results and a satisfactory user experience will be impeded.

Adoption of Internet advertisement blocking technologies may have an adverse impact on Sogou's business and results of operations.

The development of software that blocks Internet advertisements before they appear on a user's screen may hinder the growth of online advertising. Since Sogou's advertising revenues are generally based on user click-throughs, the expansion of advertisement-blocking on the Internet may decrease its advertising revenues, because when advertisements are blocked they are not downloaded from the server, which means such advertisements will not be tracked as a delivered advertisement. In addition, advertisers may choose not to advertise on the Internet or on or through Sogou's sites because of the use by third parties of Internet advertisement blocking measures. In addition, increasing numbers of browsers include technical barriers designed to prevent Internet information service providers such as it to track the browsing history of their Internet users, which is also likely to adversely affect the growth of online advertising and hence Sogou's business and growth prospects.

If Sogou fails to detect click-through fraud, it could lose the confidence of its advertisers and its revenues could decline.

Sogou's business is exposed to the risk of click-through fraud on its paid search results. Click-through fraud occurs when a person clicks paid search results for a reason other than to view the underlying content of search results. If Sogou fails to detect significant fraudulent clicks or otherwise is unable to prevent significant fraudulent activity, the affected search advertisers may experience a reduced return on their investment in its pay-for-click services and lose confidence in the integrity of its pay-for-click service systems, and Sogou may have to issue refunds to its advertisers and may lose their future business. If this happens, Sogou may be unable to retain existing advertisers and attract new advertisers for its pay-for-click services, and its search revenues could decline. In addition, affected advertisers may also file legal actions against it claiming that Sogou has over-charged or failed to refund them. Any such claims or similar claims, regardless of their merit, could be time-consuming and costly for Sogou to defend against and could also adversely affect its brand and its search advertisers' confidence in the integrity of its pay-for-click services and systems.

Web spam and content farms, as well as Sogou's attempts to block them, could decrease the quality of its search results, and could deter its current and potential users from using its products and services.

The proliferation of search engine spam websites, commonly referred to as Web spam, which attempt to manipulate search indexing to cause them to appear higher in search results ranking hierarchies than they would without such manipulation, can have the effect of weakening the integrity of Sogou's search results and causing users to lose confidence in its search products and services. "Content farm" websites, which commission very large amounts of content, often of low quality, for the purpose, similar to that of Web spam, of causing such content farms' links to obtain relatively high ranking in Internet providers' search results, can have similar adverse effects.

While Sogou uses, and continually improves, technology designed to detect and block Web spam, the algorithms Sogou applies may nevertheless result in excessive filtering that blocks desirable websites from its search results. Therefore, both the existence of Web spam and content farms, and Sogou's attempts to block them, could deter its current and potential users from using its products and services. In addition, as some of Sogou's third-party Internet-property collaborators could include Web spam or content farm websites, its advertising revenues could be reduced by its efforts to filter such websites. If Sogou's efforts to combat these and other types of index spamming are unsuccessful, its reputation for delivering relevant information could be diminished. This could result in a decline in user traffic, which would damage Sogou's business.

The successful operation of Sogou's business depends upon the performance and reliability of the Internet infrastructure in China.

Sogou's growth will depend in part on the PRC government and state-owned telecommunications services providers maintaining and expanding Internet and telecommunications infrastructure, standards, protocols, and complementary products and services to facilitate Sogou's reaching a broader base of Internet users in China.

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Almost all access to the Internet in China is maintained through China Mobile, China Unicom and China Telecom under the administrative control and regulatory supervision of the MIIT. Sogou relies on this infrastructure and China Mobile, China Unicom, and China Telecom to provide data communications capacity primarily through local telecommunications lines. Although the government has announced aggressive plans to develop the national information infrastructure, this infrastructure may not be developed and the Internet infrastructure in China may not be able to support the continued growth of Internet usage. In addition, Sogou will be unlikely to have access to alternative networks and services on a timely basis, if at all, in the event of any infrastructure disruption or failure.

Interruption or failure of Sogou's information technology and communications systems may result in reduced user traffic and harm to its reputation and business.

Interruption or failure of any of Sogou's information technology and communications systems or those of the operators of third-party Internet properties with which Sogou collaborates could impede or prevent its ability to provide its search and search-related services. In addition, Sogou's operations are vulnerable to natural disasters and other events. Sogou's disaster recovery plan for its servers cannot fully ensure safety in the event of damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, hacking, and similar events. If any of the foregoing occurs, Sogou may experience a partial or complete system shutdown. Furthermore, Sogou's servers, which are hosted at third-party Internet data centers, are also vulnerable to break-ins, sabotage and vandalism. Some of Sogou's systems are not fully redundant, and its disaster recovery planning does not account for all possible scenarios. The occurrence of a natural disaster or a closure of an Internet data center by a third-party provider without adequate notice could result in lengthy service interruptions.

Any system failure or inadequacy that causes interruptions in the availability of Sogou's services, or increases the response time of its services, could have an adverse impact on its users' experience and reduce its users' satisfaction, its attractiveness to users and advertisers, and future user traffic and advertising on its platform.

Furthermore, Sogou does not carry any business interruption insurance. To improve the performance and to prevent disruption of its services, Sogou may have to make substantial investments to deploy additional servers or one or more copies of its Internet platforms to mirror its online resources.

Sogou faces risks related to natural disasters, health epidemics, or terrorist attacks.

Sogou's business could be adversely affected by natural disasters, such as earthquakes, floods, landslides, and tsunamis, outbreaks of health epidemics such as an outbreak of avian influenza; severe acute respiratory syndrome, or SARS; Zika virus; or Ebola virus, as well as terrorist attacks, other acts of violence or war, or social instability. If any of these occurs, Sogou may be required to temporarily or permanently close and its business operations may be suspended or terminated.

PRC regulations relating to sponsored search have had, and may continue to have, an adverse effect on Sogou's results of operations.

On April 13, 2016, the SAIC and sixteen other PRC government agencies jointly issued a Notice of Campaign to Crack Down on Illegal Internet Finance Advertisements and Other Financial Activities in the Name of Investment Management, or the Campaign Notice, pursuant to which a campaign was conducted between April 2016 and January 2017 targeting, among other things, online advertisements for Internet finance and other financial activities posted on online search portals such as Sogou's. The Cyberspace Administration of China, or the CAOC, issued the Interim Measures for the Administration of Online Search, or the CAOC Interim Measures, which became effective on August 1, 2016 and require that providers of online search services verify the credentials of pay-for-click advertisers, specify a maximum percentage that pay-for-click search results may represent of results on a search page, and require that providers of search services conspicuously identify pay-for-click search results as such. The SAIC issued the Interim Measures for the Administration of Online Advertising, or the SAIC Interim Measures, which became effective on September 1, 2016 and treat pay-for-click search results as advertisements subject to PRC laws governing advertisements, require that pay-for-click search results be conspicuously identified on search result pages as advertisements and subject revenues from such advertisements to a 3% PRC tax that is applied to advertising revenues. In order to comply with these regulations, Sogou has established more stringent standards for selecting advertisers for its pay-for-click services and has turned down certain existing advertisers, and has lowered the percentage that pay-for-click search results represent of results on its search pages, which had an adverse impact on Sogou's search and search-related revenues and overall results of operations for 2016 and, along with the tax on advertising, are likely to continue to have such an impact. We cannot assure you that the PRC governmental authorities will not issue new laws or regulations specifically regulating sponsored search services, which could further impact Sogou's revenues.

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With the exception of the foregoing, there are no material changes or updates to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017 and in Part II, Item 1A of our Quarterly Report for the quarter ended June 30, 2017 filed with the SEC on August 7, 2017.

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

USE OF PROCEEDS

On July 17, 2000, Sohu.com Inc. completed an underwritten IPO 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. There has been no change in the information regarding use of proceeds from the offering that was included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the Exhibit Index attached hereto.

EXHIBIT INDEX

10.1(1)	English translation of Amendment to the Original PAB Credit Agreements, dated September 1, 2017
10.2(1)	English translation of Credit Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd., Fox Information Technology (Tianjin) Limited, and Beijing Sohu New Momentum Information Technology Co., Ltd.
10.3(1)	English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Momentum Information Technology Co., Ltd.
10.4(1)	English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd.
10.5(1)	English translation of Commitment Letter, dated September 7, 2017, between ICBC and the registrant
10.6(2)	Voting Agreement dated September 16, 2013 among Sogou Inc., Sohu.com (Search) Limited, Photon, Xiaochuan Wang, and other members of Sogou Management, as amended as of August 11, 2017
10.7(2)	Voting Agreement dated as of August 11, 2017 among Sogou Inc, Sohu.com (Search) Limited, and THL A21 Limited
10.8(2)	Registration Rights Agreement dated as of August 11, 2017 among Sogou Inc., Sohu.com (Search) Limited, Photon and THL A21 Limited
10.9(2)†	English Translation of Second Amended and Restated Mobile Browser Cooperation Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.
10.10(2)	English Translation of Cooperation Agreement between Weixin Official Platform and Sogou Search, dated September 15, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Information
10.11(2)	English Translation of Amended and Restated Business Development and Resource Sharing Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited
10.12(2)	Sohu.com Internet Plaza Office Building Lease, dated December 30, 2016, between Sogou Network and Beijing Sohu New Media Information Technology Co., Ltd., as amended and supplemented
31.1	Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
31.2	Rule 13a-14(a)/15d-14(a) Certification of Joanna Lv
32.1	Section 1350 Certification of Charles Zhang
32.2	Section 1350 Certification of Joanna Lv
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016; (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016; (iv) Condensed Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2017 and 2016; and (v) Notes to Condensed Consolidated Financial Statements, tagged using four different levels of detail.

† A portion of this exhibit has been omitted pursuant to a request for confidential treatment, and the omitted information has been filed separately with the Securities and Exchange Commission.

(1) Incorporated herein by reference to the registrant's Current Report on Form 8-K filed on September 7, 2017.

(2) Filed herewith.

SIGNATURES

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

Dated: November 3, 2017

SOHU.COM INC.

By: /s/ Joanna Lv
Joanna Lv
Acting Chief Financial Officer

VOTING AGREEMENT

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

AMONG:

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

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

WITNESSETH:

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

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

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

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Definitions

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

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

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

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

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

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

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

Section 2. Agreement to Vote; Proxy.

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

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

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

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

Section 3. Vacancy and Removal of Directors.

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

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

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

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

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

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

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

(i) if to the Company:

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

with a copy to:

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

(ii) if to Sohu Search:

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

with copies to:

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

(iii) if to Photon:

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

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

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

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

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

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

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

Section 13. Governing Law; Dispute Resolution.

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

(b) Each of the parties hereto irrevocably agrees that any dispute or controversy arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement, shall be settled by arbitration to be held in the Hong Kong S.A.R. under the Hong Kong International Arbitration Centre Administered Arbitration Rules (the "Arbitration Rules") in force when a Notice of Arbitration is submitted in accordance with the Arbitration Rules. There shall be one (1) arbitrator, selected in accordance with the Arbitration Rules. The award of the arbitrator shall be final, conclusive and binding on the parties hereto. Judgment may be entered on the arbitrator's award in any court having competent jurisdiction. The parties hereto shall each pay an equal share of the costs and expenses of such arbitration, and each party shall separately pay for its respective counsel fees and expenses.

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

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

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

[Remainder of Page Intentionally Left Blank]

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

SOGO INC.

By: _____
Name:
Title:

SOHU.COM (SEARCH) LIMITED

By: _____
Name:
Title:

PHOTON GROUP LIMITED

By: _____
Name:
Title:

Xiaochuan Wang

Hongtao Yang

Tao Hong

Liyun Ru

Tao Wu

[Signature Page to Voting Agreement]

ROSE SHADOW COMPANY LIMITED

By: _____
Name: Yunhong Sui
Title: Director

DOUBLE ACTING INVESTMENT LIMITED

By: _____
Name: Yunhong Sui
Title: Director

FAST APPROACH HOLDING LIMITED

By: _____
Name: Yunhong Sui
Title: Director

LUXURY MASTER LIMITED

By: _____
Name: Yunhong Sui
Title: Director

HONOR SOURCE INVESTMENT LIMITED

By: _____
Name: Yunhong Sui
Title: Director

[Signature Page to Voting Agreement]

SCHEDULE 1

SOGO MANAGMENT

Xiaochuan Wang

Tao Hong

Liyun Ru

Hongtao Yang

Tao Wu

Rose Shadow Company Limited

Double Acting Investment Limited

Fast Approach Holding Limited

Luxury Master Limited

Honor Source Investment Limited

EXHIBIT A

JOINDER AGREEMENT

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

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

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

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

EXECUTED AND DATED this day of .

TRANSFEE:

By: _____
Name and Title

Address: _____

Fax: _____

Accepted and Agreed:

SOGO INC.

By: _____

Title: _____

**AMENDMENT
TO
VOTING AGREEMENT**

This Amendment to Voting Agreement (this "Amendment") is made and entered into as of August 11, 2017, by and among:

- (i) **SOGOU INC.**, an exempted company with limited liability organized and existing under the laws of the Cayman Islands (the "Company");
- (ii) **SOHU.COM (SEARCH) LIMITED**, an exempted company with limited liability incorporated under the laws of the Cayman Islands ("Sohu Search");
- (iii) **PHOTON GROUP LIMITED**, a company incorporated under the laws of the British Virgin Islands ("Photon");
- (iv) **XIAOCHUAN WANG**, a citizen of the PRC, and his affiliated company, Rose Shadow Company Limited, an exempted company with limited liability under the laws of the British Virgin Islands (together, "WXC"); and
- (v) **OTHER MEMBERS OF SOGOU MANAGEMENT** and their respective affiliated companies as set out in Schedule 1 hereto (together with WXC, collectively, "Sogou Management" and each, a "Member of Sogou Management").

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

WHEREAS, reference is made to the Voting Agreement dated as of September 16, 2013, by and among the Company, Sohu Search, Photon and Sogou Management thereto (the "Voting Agreement"); and

WHEREAS, the parties hereto wish to amend the Voting Agreement, subject to the terms and conditions set forth in this Amendment.

NOW THEREFORE, the parties hereto agree as follows:

1. Amendment. Pursuant to Section 10 of the Voting Agreement, Section 4 of the Voting Agreement is hereby deleted in its entirety and replaced with the following:

"Section 4. Restrictions on Transfer by the Shareholders. In the event any of the Shareholders sells, transfers or otherwise disposes of in any way, all or any part of or any interest in any of their Company Shares to any third party, it shall cause such third party to execute and deliver a Joinder Agreement substantially in the form attached hereto as Exhibit A; *provided however*, that, following the completion of Company's IPO, this Section 4 will not apply to any sale by any of the Shareholders of any of their Company Shares in the public market pursuant to an effective registration statement under the Securities Act of 1933 (the "Securities Act") or pursuant to Rule 144 or another exemption available under the Securities

Act for resales in the public market. As used in this Section 4, the term “IPO” means the sale of the Company’s ordinary shares or, if applicable, American depositary shares representing such ordinary shares, in the first firm-commitment underwritten public offering in the United States pursuant to an effective registration statement under the Securities Act.

2. Voting Agreement Otherwise Unchanged. The Voting Agreement, as amended by this Amendment, will remain in full force and effect and is binding upon all parties thereto.

3. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to the principles of conflicts of law thereof that would apply the laws of another jurisdiction.

4. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signature Pages follow]

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

SOGOU INC.

By: _____
Name:
Title:

SOHU.COM (SEARCH) LIMITED

By: _____
Name:
Title:

PHOTON GROUP LIMITED

By: _____
Name:
Title:

Xiaochuan Wang

Hongtao Yang

Tao Hong

Liyun Ru

Tao Wu

ROSE SHADOW COMPANY LIMITED

By: _____
Name: Yunhong Sui
Title: Director

DOUBLE ACTING INVESTMENT LIMITED

By: _____
Name: Yunhong Sui
Title: Director

FAST APPROACH HOLDING LIMITED

By: _____
Name: Yunhong Sui
Title: Director

LUXURY MASTER LIMITED

By: _____
Name: Yunhong Sui
Title: Director

HONOR SOURCE INVESTMENT LIMITED

By: _____
Name: Yunhong Sui
Title: Director

This **VOTING AGREEMENT** (this "Agreement") is made as of August 11, 2017

AMONG:

- (1) **SOGO INC.**, an exempted company with limited liability incorporated under the laws of the Cayman Islands with its registered office at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands (the "Company");
- (2) **SOHU.COM (SEARCH) LIMITED**, an exempted company with limited liability incorporated under the laws of the Cayman Islands with its registered office at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands ("Sohu Search"); and
- (3) **THL A21 LIMITED**, a business company with limited liability under the laws of the British Virgin Islands whose registered office is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands ("Tencent").

Sohu Search and Tencent are referred to, collectively as the "Shareholder Parties" or individually as a "Shareholder Party". The Company, Sohu Search and Tencent are referred to, collectively as the "Parties", or individually as a "Party".

RECITALS:

- (A) The Company is contemplating conducting an IPO (as hereinafter defined) in the near future.
- (B) As of the date of this Agreement, each Shareholder Party holds the number of the classes or series of shares in the equity capital of the Company set forth in Schedule 1 hereto.
- (C) In connection with and in furtherance of the IPO, the Parties propose to undertake a restructuring of the Company's share capital, pursuant to which, among other things:
 - 1) each of the 32,000,000 issued and outstanding Pre-IPO Series A Preferred Shares will be redesignated as Post-IPO Class A Ordinary Shares;
 - 2) each of the 151,557,875 issued and outstanding shares in the Company held by Tencent immediately prior to the IPO (which include Pre-IPO Class A Ordinary Shares, Pre-IPO Class B Ordinary Shares, and Pre-IPO Series B Preferred Shares) will be redesignated as Post-IPO Class B Ordinary Shares;
 - 3) each of the 127,200,000 issued and outstanding Pre-IPO Class A Ordinary Shares held by Sohu Search for its own account immediately prior to the IPO will be redesignated as Post-IPO Class B Ordinary Shares;

- 4) each of the 35,764,581 remaining issued and outstanding Pre-IPO Class A Ordinary Shares will be redesignated as Post-IPO Class A Ordinary Shares; and
- 5) each of the Post-IPO Class A Ordinary Shares will be entitled to one vote per share and, subject to the terms of this Agreement and the Post-IPO M&A (as defined below), each of the Post-IPO Class B Ordinary Shares will be entitled to ten votes per share.
- (D) In connection with and in furtherance of the foregoing and the covenants and agreements herein contained, effective upon the completion of the IPO the Company's existing Sixth Amended and Restated Memorandum of Association and Second Amended and Restated Articles of Association (together, the "Pre-IPO M&A") will be replaced with a Seventh Amended and Restated Memorandum of Association and Third Amended and Restated Articles of Association substantially in the form attached hereto as Exhibit 1 (together, the "Post-IPO M&A").
- (E) The Parties acknowledge that Sohu Search intends to transfer a portion of the Pre-IPO Class A Ordinary Shares to a Permitted Transferee (as defined below) prior to the completion of the IPO; provided that (i) prior to and as a condition of such transfer, such Permitted Transferee will agree in writing to be bound by the terms and conditions of this Agreement pursuant to a joinder substantially in the form attached hereto as Exhibit 2 and an irrevocable power of attorney in the form attached hereto as Exhibit 3; and (ii) following such transfer, all references to Sohu Search in this Agreement will be deemed to refer to either Sohu Search or such Permitted Transferee or both, as applicable.
- (F) The Parties wish to provide for certain matters relating to the Post-IPO Class B Ordinary Shares.
- (G) In consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

AGREEMENT:

**SECTION 1
INTERPRETATION**

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

"Affiliate" of a Person (the "Subject Person") means (a) in the case of a Person other than a natural person, any other Person that directly or indirectly Controls, is Controlled by or is under common Control with the Subject Person and (b) in the case of a natural person, a Relative of the Subject Person and any other Person that is directly or indirectly Controlled by the Subject Person or his Relative; provided that the Company and its Subsidiaries shall be deemed not to be Affiliates of any Shareholder; and for the avoidance of doubt, in the case of a natural person, merely holding a position as an executive officer or member of the board of directors of a Subject Person will not in and of itself cause the Person holding such position to be an Affiliate of the Subject Person unless such Person otherwise fits within the description of Affiliate in the preceding sentences.

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

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

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

“Companies Law” means the Companies Law (2016 Revision) of the Cayman Islands, as further amended, modified or re-enacted from time to time.

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

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

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

“Governmental Authority” means any government or political subdivision thereof; any department, agency, or instrumentality of any government or political subdivision thereof, including any entity or enterprise owned or Controlled by a government; any public international organization; any court or arbitral tribunal; and any governing body of any securities exchange or other governmental, regulatory, self-regulating organization, or enforcement authority or instrumentality, in each event whether domestic, foreign, or supranational.

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

“IPO” means the sale of Post-IPO Class A Ordinary Shares or, if applicable, American depositary shares representing such Post-IPO Class A Ordinary Shares in the first firm-commitment underwritten public offering in the United States pursuant to an effective registration statement under the Securities Act.

“Liquidation Event” means:

- (a) a voluntary or involuntary liquidation, dissolution, strike-off or winding up of the Company;
- (b) a merger or consolidation, in which (i) the Company is a constituent party or (ii) another Group Company is a constituent party and the Company issues shares pursuant to such merger or consolidation, except any such merger or consolidation involving the Company or another Group Company in which the shares of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the share capital of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly-owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation (provided that all Post-IPO Class A Ordinary Shares issuable upon exercise of options or pursuant to other equity awards approved in accordance with Section 5.1 outstanding immediately prior to such merger or consolidation or upon conversion of convertible securities outstanding immediately prior to such merger or consolidation shall be deemed to be outstanding immediately prior to such merger or consolidation and, if applicable, converted or exchanged in such merger or consolidation on the same terms as the actual outstanding Post-IPO Class A Ordinary Shares are converted or exchanged);

- (c) the sale, lease, transfer, license, or other disposition, in a single transaction or series of related transactions, by the Company and/or any other Group Company of all or substantially all the assets of the Company and the other Group Companies taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more Group Companies if substantially all of the assets of the Company and the other Group Companies taken as a whole are held by such Group Company or Group Companies, except where such sale, lease, transfer, license, or other disposition is to a wholly-owned Subsidiary of the Company. For the avoidance of doubt, the license to any Person other than a Group Company of any technologies or intellectual properties of the Company or any of the other Group Companies that (i) is necessary for the conduct of the business of the Group Companies and (ii) is not in the ordinary course of business and consistent with past practice will be deemed a “Liquidation Event”; or
- (d) the sale, exchange, or transfer by any Person of direct or indirect voting Control of the Company or of any other material Group Companies, in a single transaction or series of related transactions, provided that the sale, exchange or transfer by the holders of voting securities of any shareholder of the Company of voting Control of such shareholder which does not result in the sale, exchange, or transfer of direct or indirect voting Control of the Company or of any other material Group Companies will not be considered a Liquidation Event.

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

“Photon” means Photon Group Limited, a company incorporated under laws of the British Virgin Islands.

“Post-IPO Class A Ordinary Shares” means the class A ordinary shares in scripless form, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Post-IPO M&A, including one vote per share.

“Post-IPO Class B Ordinary Shares” means the class B ordinary shares in scripless form, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Post-IPO M&A, including ten votes per share.

“Post-IPO Share(s)” means any share(s) in the equity capital of the Company following the completion of the IPO.

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

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

“Pre-IPO Class B Ordinary Shares” means the class B ordinary shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Pre-IPO M&A.

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

“Pre-IPO Series B Preferred Shares” means the series B preferred shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Pre-IPO M&A.

“Pre-IPO Shares” means, collectively, the Pre-IPO Class A Ordinary Shares, the Pre-IPO Class B Ordinary Shares, the Pre-IPO Series A Preferred Shares, and the Pre-IPO Series B Preferred Shares.

“Pre-IPO Sohu Search Shares” means 127,200,000 Pre-IPO Class A Ordinary Shares held by Sohu Search as of the date of this Agreement.

“Pre-IPO Tencent Shares” means 6,757,875 Pre-IPO Class A Ordinary Shares, 79,368,421 Pre-IPO Class B Ordinary Shares and 65,431,579 Pre-IPO Series B Preferred Shares, or 151,557,875 shares in the Company in the aggregate, held by Tencent as of the date of this Agreement.

“Principal Business” means the principal business of the Company, which is the provision via personal computers and mobile devices of Internet search services, pinyin input module services, contextual advertising services, online games, and web directory services, and subject to such approval as may be required under Section 5.1, such other business activities and investments as the Company may engage in or pursue from time to time.

“Registration Agent” means the Person maintaining the Company’s register of members and register of directors and officers.

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

“Sohu Restricted Person(s)” means such Person(s) as to which the Shareholder Parties agree and provide notice to the Company in writing from time to time.

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

“Tencent Restricted Person(s)” means such Person(s) as to which the Shareholder Parties agree and provide notice to the Company in writing from time to time.

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

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

<u>Term</u>	<u>Section</u>
“ <u>Agreement</u> ”	Preamble
“ <u>Arbitration Notice</u> ”	Section 12.2(a)
“ <u>Company</u> ”	Preamble
“ <u>Confidential Information</u> ”	Section 8.1
“ <u>HKIIAC</u> ”	Section 12.2(b)
“ <u>Independent Director</u> ”	Section 3.1(a)(i)
“ <u>Interim Period</u> ”	Section 6.2
“ <u>NASDAQ Listing Rules</u> ”	Section 3.1(a)(i)
“ <u>Notice</u> ”	Section 10.1
“ <u>NYSE Rules</u> ”	Section 3.1(a)(i)
“ <u>Party</u> ” or “ <u>Parties</u> ”	Preamble
“ <u>Permitted Transferee</u> ”	Section 4.4(a)
“ <u>Post-IPO M&A</u> ”	Recital (D)
“ <u>Pre-IPO M&A</u> ”	Recital (D)
“ <u>Representative</u> ”	Section 8.1
“ <u>Reversion Event</u> ”	Section 3.3(a)(i)
“ <u>Shareholder Party</u> ” or “ <u>Shareholder Parties</u> ”	Preamble
“ <u>Sohu Search</u> ”	Preamble
“ <u>Sohu Search Director</u> ”	Section 3.1(a)(i)(A)
“ <u>Suspension Event</u> ”	Section 3.3(a)
“ <u>Tencent</u> ”	Preamble
“ <u>Tencent Director</u> ”	Section 3.1(a)(i)(B)
“ <u>Transfer</u> ”	Section 4.1
“ <u>Triggering Event</u> ”	Section 6.1

1.3 Interpretation.

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

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

- (i) Writing. References to writing include any mode of reproducing words in a legible and non-transitory form, including emails and faxes.

**SECTION 2
COVENANTS OF THE PARTIES**

- 2.1 Adoption of the Post-IPO M&A. The Shareholder Parties agree that, in connection with the preparations for the IPO, each of them shall, within their respective power, cause the Board to, and the Company shall, at the appropriate time, propose to the shareholders that the shareholders approve the Company's adoption of the Post-IPO M&A, the effectiveness of which shall be conditional upon completion of the IPO. The Company shall not, without the prior written consent of the Shareholder Parties, propose any other form of the memorandum and articles of association for adoption by the shareholders of the Company in connection with the IPO. Each Shareholder Party shall vote in favor of the adoption of the Post-IPO M&A and shall not vote in favor of any resolution which seeks to adopt any charter documents for the Company that are in conflict with the Post-IPO M&A.
- 2.2 Redesignation of Shares. Upon the Post-IPO M&A becoming effective:
- (a) The authorized share capital of the Company will be divided into Post-IPO Class A Ordinary Shares and Post-IPO Class B Ordinary Shares, as set forth in the Post-IPO M&A; and
- (b) All of Pre-IPO Shares will be redesignated as either Post-IPO Class A Ordinary Shares or Post-IPO Class B Ordinary Shares issued by the Company, as set forth in and in accordance with the recitals to this Agreement, and each of the Post-IPO Shares shall have the rights and subject to the restrictions attached to such Post-IPO Shares as described in this Agreement and as set forth in the Post-IPO M&A.
- 2.3 Pre-IPO Transfer by Sohu Search. If, prior to the completion of the IPO, Sohu Search proposes to transfer any Pre-IPO Class A Ordinary Shares to a Permitted Transferee, then in addition to such Permitted Transferee's obligation to sign a joinder pursuant to Section 2.2 of the Shareholders' Agreement in respect of the Company dated September 16, 2013, prior to and as a condition to such transfer, Sohu Search shall procure such Permitted Transferee to agree in writing to be bound by the terms and conditions of this Agreement pursuant to a joinder substantially in the form attached hereto as Exhibit 2 and an irrevocable power of attorney in the form attached hereto as Exhibit 3.

**SECTION 3
AGREEMENT TO VOTE**

- 3.1 Board Composition. Following the completion of the IPO, for as long as this Agreement is in effect:

- (a) each Shareholder Party shall, in its capacity as a shareholder of the Company, take such actions as may be required under applicable law and the Post-IPO M&A to vote or cause to be voted such number of the Post-IPO Shares held by it or its Affiliates as determined pursuant to Section 3.1(b) or 3.1(c) below (as applicable) in favor of the following composition of the Board:
- (i) for three years following the completion of the IPO, the Board shall be constituted with seven (7) directors in total, three (3) of whom must (1) be “Independent Directors” as defined in the NASDAQ Stock Market LLC Listing Rules (the “NASDAQ Listing Rules”) or the New York Stock Exchange LLC Listed Company Manual (the “NYSE Rules”), as applicable, or meet any applicable exceptions in the NASDAQ Listing Rules or the NYSE Rules, as applicable, (2) meet the criteria for independence set forth in Rule 10A-3 under the Securities Exchange Act of 1934, (3) have not participated in the preparation of the financial statements of the Company or any Subsidiary within the last three years, and (4) be able to read and understand fundamental financial statements, including the Company’s balance sheets, income statements and cash flow statements (each such director, an “Independent Director”); in addition, at least one of such three Independent Directors must be someone with financial sophistication as described in the NASDAQ Listing Rules or the NYSE Rules, as applicable, and an “audit committee financial expert” as defined in Securities and Exchange Commission Form 20-F; and among such seven (7) directors:
- (A) four (4) directors, which shall include at least two (2) directors qualified as Independent Directors (and at least one of whom shall be someone with financial sophistication and an “audit committee financial expert” as described above), shall be appointed by Sohu Search to the Board (each, a “Sohu Search Director”);
- (B) two (2) directors, which shall include at least one (1) director qualified as an Independent Director, shall be appointed by Tencent to the Board (each, a “Tencent Director”); and
- (C) the then chief executive officer of the Company shall be appointed to be a director; and
- (ii) after the third (3rd) anniversary of the completion of the IPO, the Board composition may be changed as proposed by Sohu Search, and Tencent will give its consent to such changes as and to the extent needed and as specified in this Agreement (whether in its capacity as a shareholder of the Company or through its appointee(s) on the Board), provided that Tencent shall always be entitled to appoint at least one (1) director to the Board.

- (b) Subject to Section 3.3, the number of Post-IPO Shares that Tencent shall vote, or cause to be voted, in accordance with Section 3.1(a) shall be 45,578,896 Post-IPO Class B Ordinary Shares.
- (c) The number of Post-IPO Shares that Sohu Search shall vote, or cause to be voted, in accordance with Section 3.1(a) shall be all the Post-IPO Shares it and its Affiliates hold at the time of the vote.

3.2 Removal and Replacement of Directors.

- (a) Following the completion of the IPO, for so long as Sohu Search, Tencent, and their respective Affiliates hold, in the aggregate, more than 50% of the voting power of the Company:
 - (i) Sohu Search shall be entitled to appoint, remove, and replace any Sohu Search Director, with or without cause; and
 - (ii) Tencent shall be entitled to appoint, remove, and replace any Tencent Director, with or without cause;

in each case by Sohu Search or Tencent (as applicable) depositing a notification of appointment or removal to the Registration Agent (with a copy to the Company's registered office) and without the need of obtaining any shareholder or Board approval of the Company, and the Company shall, or shall direct its Registration Agent to, update the Company's register of directors and officers accordingly and without delay.

- (b) In addition, if at any time following the third (3rd) year anniversary of the completion of the IPO Sohu Search determines that it would like to change the composition of the Board in accordance with Section 3.1(a)(ii), Sohu Search will be entitled to either increase or decrease the size of the Board and appoint at least a majority of the members of the Board and (i) remove and replace any director so appointed, in each case by depositing a notification of appointment or removal at the Registration Agent (with a copy to the registered office of the Company) and (ii) remove any Tencent Director as and to the extent necessary to permit the Sohu Search Directors to constitute a majority of the directors of the Board, in each case without further action or ratification by the Parties or any shareholders of the Company, whereupon the maximum number of directors shall automatically increase or decrease accordingly and the Company shall, or shall direct its Registration Agent to, update the register of directors and officers accordingly and without delay, provided that (x) Tencent shall always be entitled to appoint at least one (1) director to the Board, and (y) if at any time there is more than one (1) Tencent Director and Sohu Search wishes to remove one or more Tencent Directors pursuant to this subsection, Tencent shall be entitled to designate the Tencent Director, or Tencent Directors, to be so removed.

3.3 Suspension and Conditional Reversion.

- (a) If at any time after the IPO Sohu Search and its Affiliate(s) hold in the aggregate more than 50% of the voting power of the Company without application of the provisions of Sections 3.1 and 3.2 (a “Suspension Event”), subject always to the right of Tencent to have at least one (1) director elected to the Board, Sections 3.1 and 3.2 shall be suspended and shall have no further force or effect,
 - (i) provided that, if Sohu Search and its Affiliate(s) hold in the aggregate 50% or less of the voting power of the Company without application of the provisions of Sections 3.1 and 3.2 (a “Reversion Event”) at any time that is (1) during the five (5)-year period following the completion of the IPO and (2) after the occurrence of a Suspension Event, and if none of the events provided in Section 3.4 has occurred, Sections 3.1 and 3.2 shall again become effective from the date of such Reversion Event until the date on which a Suspension Event occurs again, and
 - (ii) provided further that the number of Post-IPO Class B Ordinary Shares that Tencent shall be required to vote or cause to be voted in accordance with Section 3.1(a) shall be the lower of (1) 45,578,896 Post-IPO Class B Ordinary Shares and (2) the number of the Post-IPO Class B Ordinary Shares held by Tencent and its Affiliates which, together with the voting power of all Post-IPO Shares held by Sohu Search and its Affiliate(s) at the time of the vote, gives Sohu Search and its Affiliate(s) in the aggregate 50.1% of the voting power of the Company at any general meeting of shareholders of the Company.
- (b) For the avoidance of doubt, this Section 3.3 may apply on multiple occasions until the fifth year anniversary of the completion date of the IPO.

3.4 Termination of the Agreement to Vote. Notwithstanding any other provision contained herein, Sections 3.1 and 3.2 shall terminate upon the earlier to occur of:

- (a) Dr. Charles Zhang both ceasing to be the chairman of Sohu.com Inc. and ceasing to be the single largest beneficial owner of the outstanding equity shares of Sohu.com Inc. (which, for the avoidance of doubt, includes any interests in Sohu.com Inc. that are held by Photon or any other Person so long as Dr. Charles Zhang Controls Photon or such other Person);
- (b) Sohu Search and its Affiliate(s) having Transferred in aggregate (whether directly or indirectly) to Persons other than Sohu Search’s Permitted Transferees 30% or more of the Post-IPO Class B Ordinary Shares held by Sohu Search and its Permitted Transferee(s) on the date of the completion of the IPO;

- (c) the occurrence of a Triggering Event (subject to the terms of Section 6.2);
- (d) Tencent ceasing to own any Post-IPO Class B Ordinary Shares;
- (e) the fifth year anniversary of the date of the completion of the IPO if a Suspension Event has occurred and is continuing on such date; and
- (f) the Company does not comply with Section 6.6.

SECTION 4
TRANSFER RESTRICTIONS

- 4.1 **Limitation on Transfers.** No Shareholder Party may sell, give, assign, hypothecate, pledge, encumber, grant a security interest in, or otherwise dispose of, or suffer to exist (whether by operation of law or otherwise) any Encumbrance on, any Post-IPO Shares or any right, title or interest (including legal, beneficial or economic interest) therein or thereto (each, a "Transfer") if prohibited or restricted by this Agreement. Any attempt to Transfer any Post-IPO Shares in violation of this Agreement shall be null and void ab initio, and the Company shall not register any such Transfer.
- 4.2 **Transfers in Compliance with Law.** Following the completion of the IPO, notwithstanding any other provision of this Agreement, no Transfer may be made pursuant to this Section 4 unless (a) the Transfer complies in all respects with the other applicable provisions of this Agreement and the Post-IPO M&A and (b) the Transfer complies in all respects with applicable securities laws. If requested by the Company in its reasonable discretion, an opinion of counsel to the Transferring Shareholder Party shall be supplied to the Company, at the Transferring Shareholder Party's expense, to the effect that such Transfer complies with applicable securities laws.
- 4.3 **Lock-up Period.** In connection with the IPO, each Shareholder Party shall be subject to a customary post—IPO lockup for a period of six (6) months. No Shareholder Party shall be subject to a longer post-IPO lockup period without its prior written consent.
- 4.4 **Post-Lock-up Period Restrictions.** Without prejudice to any other provision, upon and after expiration of any applicable lock-up period following the completion of the IPO,
 - (a) if a Shareholder Party proposes to Transfer any of its Post-IPO Class B Ordinary Shares to a Permitted Transferee, prior to and as a condition to such Transfer, the Permitted Transferee shall agree in writing to be bound by the terms and conditions of this Agreement pursuant to a joinder substantially in the form attached hereto as Exhibit 2 and an irrevocable power of attorney in the form attached hereto as Exhibit 3; a "Permitted Transferee" shall mean, in the case of Sohu Search, a wholly-owned Subsidiary of Sohu.com Inc., and, in the case of Tencent, a wholly-owned Subsidiary of Tencent Holdings Limited; and if at any time a Permitted Transferee ceases to be a Permitted Transferee, such Person shall immediately transfer all of the Post-IPO Class B Ordinary Shares in which it holds any interest to a Permitted Transferee,

- (b) if a Shareholder Party proposes to Transfer any of its Post-IPO Class B Ordinary Shares to any Person other than a Permitted Transferee, prior to and as a condition to such Transfer, subject to Section 4.7, the Transferring Shareholder Party shall render to the Company for conversion into Post-IPO Class A Ordinary Shares, and the Company shall cancel, the Post-IPO Class B Ordinary Shares to be Transferred, and the Company shall issue an equivalent number of Post-IPO Class A Shares to such Shareholder Party or its transferee; and
- (c) notwithstanding Section 4.4(b), a Shareholder Party may pledge to, or grant a security interest in for the benefit of, any Person, whether or not such Person is a Permitted Transferee, any of its Post-IPO Class B Ordinary Shares as collateral to secure such Shareholder Party's or its Affiliate's repayment and performance of one or more bona fide loans to such Shareholder Party or such Affiliate by such Person without triggering the requirements of conversion by such Shareholder Party of the Post-IPO Class B Ordinary Shares subject to such pledge or such security interest under Section 4.4(b); provided however, if any disposition of any Post-IPO Class B Ordinary Shares (including creation of any pledge or any security interest over such Shares) to any Person other than a Permitted Transferee will result in the Shareholder Party that holds such Shares immediately before such disposition being unable to exercise at its own discretion the voting power of any such Shares, then Section 4.4(b) shall apply to such disposition, and prior to and as a condition to such disposition, such Shareholder Party must render such Shares for conversion into, and cancellation by the Company in exchange for the issuance of, an equivalent number of Post-IPO Class A Ordinary Shares to it or the Person it will dispose of such Shares to.
- 4.5 No Transfer to Restricted Persons. Without the prior written consent of Sohu Search, Tencent shall not Transfer any Post-IPO Shares to any Sohu Restricted Person. Without the prior written consent of Tencent, Sohu Search shall not Transfer any Post-IPO Shares to any Tencent Restricted Person.
- 4.6 Avoidance of Restrictions. The Parties agree that the Transfer restrictions in this Agreement and in the Post-IPO M&A shall not be capable of being avoided by the holding of Post-IPO Shares indirectly through a company or other entity that can itself be sold in order to dispose of an interest in Post-IPO Shares free of such restrictions. Any transfer or other disposal of any right, title or interest (including legal, beneficial or economic) in any shares (or other interest) resulting in any Change of Control of a Shareholder Party or of any Person having Control over that Shareholder Party shall be treated as being a Transfer of the Post-IPO Shares held by that Shareholder Party, and the provisions of this Agreement and the Post-IPO M&A that apply in respect of the Transfer of Post-IPO Shares shall thereupon apply in respect of the Post-IPO Shares so held; provided, that a Change of Control of Sohu.com Inc. that does not otherwise constitute a "Triggering Event" under Section 6.1 hereof will not in and of itself be treated as Transfer of Post-IPO Shares.

- 4.7 The Company may effect the conversion of the Post-IPO Class B Ordinary Shares in any manner available under the Companies Law or applicable law, including redeeming or repurchasing the Post-IPO Class B Ordinary Shares and applying the proceeds thereof towards the payment for the same number of Post-IPO Class A Ordinary Shares to be issued immediately after the redemption or repurchase of such Post-IPO Class B Ordinary Shares.

SECTION 5
RESERVED MATTERS

- 5.1 From and after the completion of the IPO, in addition to any other vote or consent required by the Companies Law and the Post-IPO M&A, each Party shall, within its power, procure that, for so long as Sohu Search or Tencent holds not less than 15% of the issued shares of the Company (calculated on a fully diluted basis), consent from such Shareholder Party ("Required Consent") shall be obtained for any action (whether by amendment of the Post-IPO M&A or otherwise, and whether in a single transaction or a series of related transactions) that approves or effects any of the following matters:
- (a) any Liquidation Event, or consent to any Liquidation Event;
 - (b) amendment, alteration, or repeal any provision of the Post-IPO M&A;
 - (c) any material changes to, or cessation of, any line of the Principal Business;
 - (d) creation or authorization of the creation of, or issuance of or creation of an obligation of the Company to issue, (i) additional Post-IPO Class B Ordinary Shares or (ii) shares of (by reclassification or otherwise) any class or series that are pari passu or senior in any respect to the Post-IPO Class A Ordinary Shares;
 - (e) any transaction between any Group Company (on the one hand) and Sohu Search and/or any of its Affiliates (on the other hand), other than transactions entered into in the ordinary course of business on an arm's length basis; and
 - (f) agreement or commitment to any of the foregoing.
- 5.2 Where any act listed in Sections 5.1(a) to 5.1(f) above requires the approval of the shareholders of the Company in accordance with the Companies Law, if the shareholders vote in favor of such act but the Required Consent has not been obtained, then the holders of all classes of shares of the Company then in existence who vote against such act shall, collectively, have such number of votes as are equal to the aggregate number of votes cast in favor of such act plus one (1).

SECTION 6
CHANGE OF VOTING POWER OF POST-IPO CLASS B ORDINARY SHARES

- 6.1 Upon the occurrence of any of the following events (each, a “Triggering Event”), each of the Post-IPO Class B Ordinary Shares shall be convertible, at the option of the holder thereof, into an equivalent number of Post-IPO Class A Ordinary Shares:
- (a) (i) a Change of Control of Sohu Search, (ii) a Change of Control of Sohu.com Inc., or (iii) a Change of Control of any other Person which results in Sohu.com Inc. ceasing to have direct or indirect Control over Sohu Search, and in each case, such Change of Control is not approved by the relevant board of directors of the company subject to the Change of Control and, in any case, not approved by the board of directors of Sohu.com Inc.;
 - (b) (i) a Change of Control of Sohu Search, (ii) a Change of Control of Sohu.com Inc., or (iii) a Change of Control of any other Person which results in Sohu.com Inc. ceasing to have direct or indirect Control over Sohu Search, and in each case, such Change of Control results in one or more Tencent Restricted Person(s) acquiring direct or indirect Control of Sohu Search;
 - (c) a majority of the members of (i) the Board; (ii) the board of Sohu.com Inc.; (iii) the board of any other Person through which Sohu.com Inc. exercises its direct or indirect Control over Sohu Search; or (iv) the board of any VIE Entity of (1) any Group Company, (2) Sohu.com Inc., or (3) any Person through which Sohu.com Inc. exercises its direct or indirect Control over Sohu Search, in any case consisting of Persons appointed or nominated by one or more Tencent Restricted Person(s); or
 - (d) the Company’s Registration Agent is changed without Tencent’s prior written consent.
- 6.2 In furtherance of the intent and purposes of Section 6.1, notwithstanding the provisions of Section 3.4(c) providing that a Triggering Event will terminate Sections 3.1 and 3.2 of this Agreement,
- (a) Sections 3.1 and 3.2 will not be terminated until the end of the period (the “Interim Period”) between the date of the occurrence of a Triggering Event and the date on which the Company’s register of members has been updated to reflect the conversion of all the Post-IPO Class B Ordinary Shares held by Sohu Search into Post-IPO Class A Ordinary Shares pursuant to Section 6.1;
 - (b) during the Interim Period, Sections 3.1 and 3.2 will be deemed to be amended automatically, and without any action of any Party, such that during such Interim Period, all rights of Sohu Search under Sections 3.1 and 3.2 shall be completely vested in Tencent rather than in Sohu Search and, all references to Sohu Search under Sections 3.1 and 3.2 (other than in Section 3.1(c) and with respect to the first two (2) references to Sohu Search in Section 3.2(a)) hereof shall be deemed to refer to Tencent; and

(c) Sections 3.1 and 3.2 will terminate as of the end of the Interim Period.

- 6.3 The Company acknowledges that, on the date hereof, Sohu Search had granted Tencent an irrevocable power of attorney in the form attached hereto as Exhibit 3 (the "Tencent POA"), which authorizes Tencent to, upon occurrence of a Triggering Event, send a written notice to the Company's Registration Agent on behalf of Sohu Search to convert all the Post-IPO Class B Ordinary Shares held by Sohu Search to Post-IPO Class A Ordinary Shares. Tencent shall send a copy of such notice to the Company and Sohu Search at the same time it sends the notice to Registration Agent.
- 6.4 Upon occurrence of a Triggering Event, if Tencent wishes to exercise its rights under Section 6.2(b), it shall have the right to send a written notice to the Registration Agent, with the Company and Sohu Search copied on such notice, replacing the Sohu Search Directors with individuals appointed by Tencent.
- 6.5 In addition to the irrevocable instruction the Company should give to the Registration Agent pursuant to Section 6.6 below, upon receipt of the notice(s) from Tencent in respect of any share conversion and/or change of directors, the Company shall cause its Registration Agent (a) to immediately update the Company's register of members and/or register of directors and officers (as applicable, and subject to satisfaction of KYC requirements for any newly appointed directors) and (b) to circulate to all Parties as soon as possible and in any event within two Business Days the updated register(s) reflecting the share conversion and/or director change(s) set forth in the notices issued by Tencent.
- 6.6 Prior to the IPO, the Company shall adopt a Board resolution and send an irrevocable instruction to its Registration Agent, in each case in form and substance satisfactory to Tencent, authorizing the Registration Agent to, upon receipt of a notice or instruction from Tencent stating that a Triggering Event has occurred, accept the Tencent notice and, without the further action on any other Person (a) convert all the Post-IPO Class B Ordinary Shares held by Sohu Search to Post-IPO Class A Ordinary Shares and (b) update the register of directors (as applicable). The Company shall not amend or revoke such Board resolution or irrevocable instruction, and shall not give the Registration Agent any other instruction that may adversely affect any of Tencent's rights under this Section 6.
- 6.7 The Company shall not change its Registration Agent without Tencent's prior written consent.

- 6.8 Sohu Search undertakes to Tencent that it will not challenge the validity of the notices issued by Tencent with respect to any share conversion and/or changes of directors in connection with a Triggering Event, provided however that if Sohu Search disputes the occurrence of a Triggering Event, Sohu Search may raise the dispute with Tencent (and Tencent only). If Sohu Search prevails in such dispute, all the Post-IPO Class B Ordinary Shares held by Sohu Search that were converted to Post-IPO Class A Ordinary Shares shall be re-converted into Post-IPO Class B Ordinary Shares, and any and all of the directors who replaced the Sohu Search Directors pursuant to Section 6.4 hereof (if any) shall immediately resign from the Board and be replaced with individuals nominated by Sohu Search.
- 6.9 Sohu Search shall notify the other Parties as soon as it becomes aware that a Triggering Event is expected to occur, and shall in any event notify the other Parties within three (3) Business Days after a Triggering Event has occurred. Tencent may also notify the other Parties as soon as it becomes aware that a Triggering Event is expected to occur or has occurred.

**SECTION 7
REPRESENTATIONS AND WARRANTIES**

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

SECTION 8
CONFIDENTIALITY AND RESTRICTIONS ON PUBLICITY

8.1 General Obligation. Each Party undertakes to the other Parties that it shall not reveal, and that it shall procure that its directors, equity interest holders, officers, employees and agents (collectively, "Representatives") do not reveal to any third party any Confidential Information without the prior written consent of the concerned Party, as the case may be, or use any Confidential Information in such manner that is detrimental to the Company or the concerned Party, as the case may be. The term "Confidential Information" as used in this Section 8 means, (a) any information concerning the organization, business, technology, intellectual property, safety records, investment, finance, transactions or affairs of the Company or the concerned Party or any of their respective directors, officers or employees (whether conveyed in written, oral or in any other form and whether such information is furnished before, on or after the date of this Agreement); (b) the terms of this Agreement; and (c) any other information or materials prepared by a Party or its Representatives that contains or otherwise reflects, or is generated from, Confidential Information.

8.2 Exceptions. The provisions of Section 8.1 shall not apply to:

- (a) disclosure of Confidential Information that is or becomes generally available to the public other than as a result of disclosure by or at the direction of a Party or any of the Representatives in violation of this Agreement;
- (b) disclosure by a Party to a Representative or an Affiliate so long as such disclosure is necessary in order for that Party to perform its obligations, or exercise its rights, under this Agreement, provided that such Representative or Affiliate (i) is under a similar obligation of confidentiality or (ii) is otherwise under a binding professional obligation of confidentiality; or
- (c) disclosure, after giving prior notice to the concerned Party to the extent practicable under the circumstances and subject to any practicable arrangements to protect confidentiality, to the extent required in connection with the disclosures necessary for the preparation and completion of the IPO, or under the rules of any stock exchange on which the shares of the disclosing Party or its parent company are listed or by applicable laws or judicial or regulatory process or in connection with any judicial process regarding any legal action, suit or proceeding arising out of or relating to this Agreement.

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

**SECTION 9
TERM AND TERMINATION**

- 9.1 **Effective Date; Termination.** Other than Section 3 to Section 6 (inclusive) which shall become effective upon completion of the IPO, this Agreement shall become effective as of the date first above written and shall continue in effect until:
- (a) if the IPO is completed within 12 months after the date of this Agreement, the earlier to occur of (i) agreement of Sohu Search and Tencent in writing to terminate this Agreement and (ii) Sohu.com Inc. and its wholly owned Subsidiaries or Tencent Holdings Limited and its wholly owned Subsidiaries no longer beneficially owning any Equity Securities in the Company; and
 - (b) if the IPO is not completed within 12 months after the date of this Agreement, the last day of such 12-month period.
- 9.2 **Effect of Termination and Survival Provisions.** If this Agreement is terminated pursuant to Section 9.1, this Agreement shall become null and void and of no force and effect beyond termination, except that the Parties shall continue to be bound by the provisions of Section 8 (*Confidentiality and Restrictions on Publicity*), this Section 9, Section 11.2 (*No Agency*), Section 11.3 (*No Partnership*) and Section 12 (*Governing Law and Dispute Resolution*). Nothing in this Section 9.2 shall be deemed to release any Party from any liability for any breach of this Agreement prior to the effective date of such termination.

**SECTION 10
NOTICES**

- 10.1 **Notice Addresses and Method of Delivery.** All notices, requests, demands, consents and other communications (each, a “Notice”) required to be given by one Party to the other Parties shall be in writing and delivered by hand delivery, express courier or email to the recipient Party at the address stated below:

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

with copies to: Sogou Inc.
Level 15, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084
People's Republic of China
Email: xiaochuanwang@sohu-inc.com

and

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

if to Sohu Search: Sohu.com (Search) Limited
Floor 4, Willow House, Cricket Square, P.O. Box
2804, Grand Cayman KY1-1112, Cayman Islands
Attention: Joanna Lv
Email: joannalu@sohu-inc.com

with copies to: Sohu.com (Search) Limited
c/o Sohu.com Inc.
Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190, People's Republic of China

and

Goulston & Storrs PC
400 Atlantic Avenue
Boston, MA 02110
Attention: Timothy B. Bancroft
Email: tbancroft@goulstonstorrs.com

if to Tencent: c/o Tencent Holdings Limited
Level 29, Three Pacific Place
1 Queen's Road East
Wanchai, Hong Kong
Attention: Compliance and Transactions Department
Email: legalnotice@tencent.com

with a copy to: Tencent Building, Keji Zhongyi Avenue,
Hi-tech Park, Nanshan District,
Shenzhen 518057, PRC
Attention: Mergers and Acquisitions Department
Email: PD_Support@tencent.com

Paul, Weiss, Rifkind, Wharton & Garrison
12th Floor, The Hong Kong Club Building,
3A Chater Road, Central,
Hong Kong
Attention: Jeanette K. Chan
Email: jchan@paulweiss.com

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

10.2 Time of Delivery. Any Notice delivered:

- (a) by hand delivery shall be deemed to have been delivered on the date of actual delivery;
- (b) by email shall be deemed to have been delivered upon confirmation of delivery; and
- (c) by prepaid express courier shall be deemed to have been delivered upon delivery by the courier.

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

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

SECTION 11 MISCELLANEOUS

11.1 Discrepancies. If there is any discrepancy between any provision of this Agreement and any provision of the Post-IPO M&A or the charter documents of any other Group Company, the provisions of this Agreement shall prevail as among the Shareholder Parties, and each Party shall, within their respective power, procure that the Post-IPO M&A or the charter documents of the relevant Group Company, as the case may be, are promptly amended, to the extent permitted by applicable law, in order to conform with this Agreement.

- 11.2 **No Agency.** No Shareholder Party, acting solely in its capacity as a shareholder of the Company, shall act as an agent of the Company or have any authority to act for or to bind the Company, except as authorized by the Board. Either Shareholder Party that takes any action or binds the Company in violation of this Section 11.2 shall be solely responsible for, and shall indemnify the Company and the other Shareholder Party (solely in such other Shareholder Party's capacity as a shareholder of the Company) against, any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever (including any investigative, legal and other expenses reasonably incurred in connection with, and any amounts paid in settlement of, any pending or threatened legal action or proceeding) that the Company, or such other Shareholder Party (solely in its capacity as a shareholder of the Company), as the case may be, may at any time become subject to or liable for by reason of such violation.
- 11.3 **No Partnership.** The Shareholder Parties expressly do not intend hereby to form a partnership, either general or limited, under any jurisdiction's partnership law. The Shareholder Parties do not intend to be partners to each other, or partners as to any third party, or create any fiduciary relationship among themselves, by virtue of their status as shareholders of the Company. To the extent that either Shareholder Party, by word or action, represents to another Person that the other Shareholder Party is a partner or that the Company is a partnership, the Shareholder Party making such representation shall be liable to the other Shareholder Party if such other Shareholder Party incurs any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever (including any investigative, legal or other expenses reasonably incurred in connection with, and any amount paid in settlement of, any pending or threatened legal action or proceeding) arising out of or relating to such representation.
- 11.4 **Further Assurance.** Each Party agrees to perform and cause to be performed all further actions and things, and execute and deliver and cause to be executed and delivered such further documents, as may be required by law or as the other Parties may reasonably request, to implement and/or give effect to this Agreement and the arrangements contemplated hereunder. Without prejudice to the generality of the above, the Company shall promptly give instructions to the Company Secretary and its agents, including the Registration Agent, to take all such actions or refraining to take actions (including whether or not to update the Company's register of directors and officers and/or register of members or instructions to convert Post-IPO Class B Ordinary Shares into Post-IPO Class A Ordinary Shares) to reflect the intent of the Parties and the provisions set out in this Agreement.
- 11.5 **Amendment.** This Agreement may be amended, modified or supplemented with the written instrument executed by the Parties, and any such amendment shall be valid and binding on all Parties.
- 11.6 **Waiver.** No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by any other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

- 11.7 Entire Agreement. This Agreement and the Post-IPO M&A represent the entire understanding and constitute the whole agreement among the Parties relating to the subject matter hereof and supersedes any prior agreements or understandings relating to such subject matter, provided that the Parties acknowledge and agree that the Shareholders' Agreement in respect of the Company dated September 16, 2013 shall continue to remain in full force and effect until terminated pursuant to the provisions thereof.
- 11.8 Severability. Each and every obligation under this Agreement shall be treated as a separate obligation and shall be severally enforceable as such and in the event of any obligation or obligations being or becoming unenforceable in whole or in part. To the extent that any provision or provisions of this Agreement are unenforceable they shall be deemed to be deleted from this Agreement, and any such deletion shall not affect the enforceability of this Agreement as remain not so deleted.
- 11.9 Counterparts. This Agreement may be executed in any number of counterparts and by the Parties in separate counterparts, including counterparts transmitted by e-mails, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Except as otherwise specified, this Agreement shall become legally binding at the time of execution of the last such counterpart and shall have effect from the date first above written.
- 11.10 Consent to Specific Performance. The Parties declare that it may be impossible to measure in money the damages that would be suffered by a Party by reason of the failure by the other Parties to perform any of the obligations hereunder. Therefore, if any Party shall institute any action or proceeding to enforce the provisions hereof, the other Party(ies) against whom such action or proceeding is brought hereby waives any claim or defense therein that the instituting Party has an adequate remedy at law.
- 11.11 Consent. Any consent required under this Agreement shall be valid and effective only if given in writing.

SECTION 12
GOVERNING LAW AND DISPUTE RESOLUTION

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

12.2 Arbitration.

- (a) Any dispute, controversy or claim arising out of, in connection with or relating to this Agreement (or the interpretation, breach, termination or validity thereof) shall be resolved through arbitration. A dispute may be submitted to arbitration upon the request of any Party with written notice to the other Parties (the "Arbitration Notice").
- (b) The arbitration shall be conducted in Hong Kong and administered by the Hong Kong International Arbitration Centre (the "HKIAC") under the UNCITRAL Arbitration Rules in force at the time of the initiation of the arbitration. There shall be three arbitrators. The claimant(s) to the dispute shall choose one arbitrator, and the respondent(s) shall choose one arbitrator, within 30 days after the delivery of the Arbitration Notice to the other Parties. Both arbitrators shall agree on the third arbitrator within 30 days of their appointment. If any of the members of the arbitral tribunal have not been appointed within 30 days after the Arbitration Notice is given, the relevant appointment shall be made by the Secretary General of the HKIAC. The arbitration shall be conducted in English.
- (c) Each Party shall cooperate with the other in making full disclosure of and providing complete access to all information and documents requested by the other(s) in connection with such arbitration proceedings, subject only to any doctrine of legal privilege or any confidentiality obligations binding on such Party.
- (d) The costs of arbitration shall be borne by the losing Party, unless otherwise determined by the arbitration tribunal.
- (e) When any dispute occurs and when any dispute is under arbitration, except for the matters in dispute, the Parties shall continue to fulfill their respective obligations and shall be entitled to exercise their rights under this Agreement.
- (f) The award of the arbitration tribunal shall be final and binding upon the Parties, and the prevailing Party may apply to a court of competent jurisdiction for enforcement of such award.
- (g) Any Party shall be entitled to seek preliminary injunctive relief from any court of competent jurisdiction pending the constitution of the arbitration tribunal.

[Signature pages follow]

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

SOGOU INC.

By: _____
Name:
Title:

SOHU.COM (SEARCH) LIMITED

By: _____
Name:
Title:

THL A21 LIMITED

By: _____
Name:
Title:

[signature page to voting agreement]

SCHEDULE 1
NUMBER AND CLASS/SERIES OF SHARES HELD BY SOHU SEARCH AND TENCENT PRIOR TO AND UPON/AFTER THE IPO

Name of Shareholder	Pre-and Post-IPO Class/Series of Shares			
	Class A Ordinary Shares	Class B Ordinary Shares	Series A Preferred Shares	Series B Preferred Shares
SOHU.COM (SEARCH) LIMITED				
- As of the date of this Agreement as well as immediately prior to IPO	127,200,000 Pre-IPO Class A Ordinary Shares	0	0	0
- Upon and immediately after IPO	0	127,200,000 Post-IPO Class B Ordinary Shares	0	0
THL A21 LIMITED				
- As of the date of this Agreement as well as immediately prior to IPO	6,757,875 Pre-IPO Class A Ordinary Shares	79,368,421 Pre-IPO Class B Ordinary Shares	0	65,431,579 Pre-IPO Series B Preferred Shares
- Upon and immediately after IPO	0	151,557,875 Post-IPO Class B Ordinary Shares	0	0

[Voting Agreement - Schedule 1]

EXHIBIT 1
FORM OF THE POST-IPO M&A OF THE COMPANY

[Voting Agreement — Exhibit 1]

EXHIBIT 2
FORM OF JOINDER

Reference is made to the [transfer document], dated [] between [Transferring Shareholder Party] (the “Transferor”) and the undersigned, pursuant to which the Transferor shall sell to the undersigned, and the undersigned shall purchase from the Transferor, [number] [Pre-IPO Class A Ordinary Shares]/[Post-IPO Class B Ordinary Shares] for consideration equal to [consideration]. It is a condition to the completion of such sale and purchase that the undersigned become a party to that certain Voting Agreement, dated [], 2017 among Sogou Inc., Sohu.com (Search) Limited and THL A21 Limited (the “Voting Agreement”). Except as the context may otherwise require, all words and expressions defined in the Voting Agreement shall have the same meanings when used herein.

Accordingly, by execution of this joinder, the undersigned covenants to the Company as agent and trustee for all other Persons who are present or who may hereafter become a Shareholder Party under the Voting Agreement, and to the Company itself, to ratify, adhere to and be fully bound by, and subject to, all of the covenants, terms and conditions of the Transferor imposed by the Voting Agreement as though an original party thereto in the same capacity as the Transferor since the date thereof. The undersigned authorizes this signature page to be attached to and made part of the Voting Agreement.

All other Persons who are present or who may hereafter become a Shareholder Party under the Voting Agreement and the Company shall be entitled to enforce the Voting Agreement against the undersigned, and the undersigned shall be entitled to all rights and benefits of the Transferor under the Voting Agreement, in each case as if the undersigned had been an original party to the Shareholders’ Agreement since the date thereof.

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

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

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

SOGOU, INC.

By: _____
Name:
Title:

[Voting Agreement — Exhibit 2]

[NAME OF NEW SHAREHOLDER]

By: _____

Name:

Title:

[*Voting Agreement — Exhibit 2*]

EXHIBIT 3
FORM OF IRREVOCABLE POWER OF ATTORNEY

THIS **IRREVOCABLE POWER OF ATTORNEY** is made on

BY [Name of Sohu shareholder] a company incorporated under the laws of [•] whose [business] / [registered] office is situated at [•] (the “**Company**”).

IT IS AGREED AND DECLARED THAT

In exercise of the power(s) in that behalf contained in its Articles of Association and in order to secure the performance of an obligation owed to the Attorney, the Company **HEREBY IRREVOCABLY APPOINTS** [name of Tencent shareholder] whose [business] / [registered] office is situated at [•] (the “**Attorney**”), to be the true and lawful attorney-in-fact of the Company, for and in the name of and on behalf of the Company, acting singly, to do and execute all and any of the acts, things and other matters following, namely to:

1. in accordance with section 6 of the voting agreement entered into by Sohu.com (Search) Limited, THL A21 Limited and Sogou Inc. (an exempted company with limited liability incorporated under the laws of the Cayman Islands with its registered office at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands (“**Sogou**”)) in respect of Sogou dated [Date] [and a Joinder signed by the Company on the date first above written] (the “**Voting Agreement**”), upon the occurrence of a Triggering Event (as defined in the Voting Agreement), send a written notice (the “**Conversion Notice**”) to the Person that is maintaining Sogou’s register of members (the “**Registration Agent**”) on behalf of the Company:

(a) to instruct the Registration Agent (with a copy to Sogou and the Company) to convert all of the Post-IPO Class B Ordinary Shares (as defined in the Voting Agreement) held by the Company to Post-IPO Class A Ordinary Shares (as defined in the Voting Agreement); and

(b) to request the Registration Agent to circulate to the Company, the Attorney and Sogou as soon as possible and in any event within two Business Days (as defined in the Voting Agreement) after the date the Conversion Notice the updated register of members of Sogou reflecting the share conversion set forth in the Conversion Notice.

AND IT IS FURTHER AGREED AND DECLARED THAT

2. The Company hereby ratifies and confirms, and agrees to ratify and confirm, any acts and other things whatsoever that the Attorney shall do or purport to do by virtue of this Irrevocable Power of Attorney including any such acts and things done between the time this Irrevocable Power of Attorney ceases to be effective and valid.

3. The Company hereby authorises and empowers the Attorney (a) to acknowledge in the name of and as the act and deed of the Company this Irrevocable Power of Attorney, that this Irrevocable Power of Attorney has been executed as a deed and (b) to register and record this Irrevocable Power of Attorney in any office and/or registry in any country and to procure to be done any and every other act and thing whatsoever which may in any way be necessary, advisable, convenient or otherwise desirable for authenticating and otherwise giving full effect to this Irrevocable Power of Attorney according to the law and usages of any country as fully and effectually as the Company could.

[Voting Agreement — Exhibit 3]

4. By the execution of this Irrevocable Power of Attorney, the Company undertakes to indemnify, and hereby indemnifies, the person named above as Attorney (and any substitutes or delegates of such Attorney) of the Company from and against all actions, proceedings, losses, costs, damages, expenses, claims, demands and other liabilities of any nature whatsoever which any or all of them may suffer or otherwise incur by reason of the Attorney acting pursuant to or in reliance on this Irrevocable Power of Attorney.

5. The Company acknowledges, agrees and confirms that notwithstanding any other document or instruction it may sign or send or cause to be signed or sent after the date hereof, this Irrevocable Power of Attorney shall be irrevocable, effective and valid, and shall not be capable of being amended or revoked in any manner, until 11.59pm (Cayman Islands time) on the date falling 30 days after the Registration Agent circulates to the Company, the Attorney and Sogou the updated register of members of Sogou reflecting the share conversion set forth in the Conversion Notice.

6. This Irrevocable Power of Attorney shall be governed by and construed in accordance with the laws of the Cayman Islands.

[the remainder of this page is intentionally left blank]

[*Voting Agreement — Exhibit 3*]

IN WITNESS WHEREOF the Company has executed this Irrevocable Power of Attorney as a deed the day and year first above written.

EXECUTED AS A DEED for and on behalf of [Name of Sohu shareholder]:1

)
) _____
) Duly Authorised Signatory
)
) Name: _____
)
) Title: _____
)
) _____
) Duly Authorised Signatory
)
) Name: _____
)
) Title: _____

in the presence of:

Signature of Witness

Name: _____

Address: _____

VOTING AGREEMENT

among

SOGOU, INC.,

SOHU.COM (SEARCH) LIMITED,

and

THL A21 LIMITED,

Dated [●]

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SOGOU INC.

REGISTRATION RIGHTS AGREEMENT

, 2017

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REGISTRATION RIGHTS AGREEMENT

This **REGISTRATION RIGHTS AGREEMENT** (the "Agreement") is entered into as of [•], 2017.

AMONG:

- (1) Sogou Inc., an exempted company with limited liability incorporated under the laws of the Cayman Islands with its office at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands (the "Company"),
- (2) Sohu.com (Search) Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands with its registered office at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands ("Sohu Search"),
- (3) THL A21 Limited, an exempted company with limited liability under the laws of the British Virgin Islands whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands ("Tencent"); and
- (4) Photon Group Limited, a company incorporated under laws of the British Virgin Islands with its address at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Island ("Photon").

RECITALS:

- A. The Company is contemplating conducting an initial public offering of its shares on an internationally recognized stock exchange in the near future.
- B. As of the date of this Agreement, each of Sohu Search, Tencent and Photon holds certain shares of the Company which are considered "restricted securities" under the Securities Act (as defined below).
- C. In connection with the contemplated initial public offering, the Company has agreed to provide Sohu Search, Tencent and Photon with certain registration rights with respect to their respective Registrable Securities (as defined below) as set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual promises and covenants herein and other consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Definitions. For purposes of this Agreement:

(a) The term "Affiliate" means, with respect to a Person, any other Person that, directly or indirectly, Controls, is Controlled by or is under common Control with such Person.

(b) The term “Agreement” has the meaning set forth in the Preamble of this Agreement.

(c) The term “Arbitration Rules” has the meaning set forth in Section 3.4(b).

(d) The term “Board” has the meaning set forth in Section 2.5(a).

(e) The term “Business Day” means any weekday that the banks in the Cayman Islands, the Hong Kong Special Administrative Region, the People’s Republic of China, and the United States of America are generally open for business.

(f) The term “Code” means the Internal Revenue Code of 1986, as amended.

(g) The term “Company Activity” has the meaning set forth in Section 2.5(a).

(h) “Control” of a given Person means the power or authority, whether exercised or not, to direct the business, management and/or policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; provided, that such power or authority shall conclusively be presumed to exist upon possession of beneficial ownership or power to direct the vote of more than fifty percent (50%) of the votes entitled to be cast at a meeting of the members or shareholders of such Person or power to control the composition of a majority of the board of directors of such Person. The terms “Controlled” and “Controlling” have meanings correlative to the foregoing.

(i) The term “Equity Securities” means any shares of, or securities convertible into or exchangeable or exercisable for any shares of, the Company’s capital securities.

(j) The term “Exchange Act” means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(k) The term “Form F-3” means Form F-3 under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the SEC that permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(l) The term “F-3 Initiating Holders” has the meaning set forth in Section 2.3(a).

(m) The term “Holder” means any person owning of record Registrable Securities that have not been sold to the public pursuant to Rule 144 or otherwise, or any assignee thereof to whom rights of a Holder under this Agreement have been duly assigned in accordance with Section 2.9 hereof.

(n) The term “Indemnified Party” has the meaning set forth in Section 2.6(c).

(o) The term “Indemnifying Party” has the meaning set forth in Section 2.6(c).

(p) The term “IPO” means the sale of Post-IPO Class A Ordinary Shares or, if applicable, American depository shares representing such Post-IPO Class A Ordinary Shares in the first firm-commitment underwritten public offering in the United States pursuant to an effective registration statement under the Securities Act.

(q) The term “Initiating Holders” means one or more Holders who in the aggregate hold(s) not less than twenty-five percent (25%) of the then outstanding Registrable Securities.

(r) The term “Inspector” has the meaning set forth in Section 2.5(g).

(s) The term “Lockup Start Date” has the meaning set forth in Section 2.11(a).

(t) The term “Market Standoff Period” has the meaning set forth in Section 2.11(a).

(u) The term “Parties” means collectively the Company, Sohu Search, Tencent and Photon, and the term “Party” means any one of them.

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

(w) The term “Post-IPO Class A Ordinary Shares” means the Class A Ordinary Shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Post-IPO M&A, including one vote per share.

(x) The term “Post-IPO Class B Ordinary Shares” means the Class B Ordinary Shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Post-IPO M&A, including ten votes per share.

(y) The term “Post-IPO M&A” means the memorandum and articles of association of the Company that the Company proposes to become effective upon completion of the IPO (which effectiveness shall be subject to the approval of Sohu Search and Tencent in their capacity as shareholders of the Company).

(z) The term “Principal Tribunal” has the meaning set forth in Section 3.4(c).

(aa) The terms “register,” “registered,” and “registration” refer to a registration (including, but not limited to, a registration of American Depository Receipts) effected by preparing and filing a registration statement or similar document in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

(bb) The term “Registrable Securities” means (i) the Post-IPO Class A Ordinary Shares issuable or issued upon conversion of the Post-IPO Class B Ordinary Shares, (ii) any Post-IPO Class A Ordinary Shares owned or hereafter acquired by a Holder, and (iii) any other Post-IPO Class A Ordinary Shares of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for, or in replacement of, the shares referenced in (i) or (ii) above, excluding in all cases, however, any Registrable Securities sold by a Person in a transaction in which his, her or its rights under Section 2 hereof are not assigned in accordance with this Agreement or any securities sold in a public offering, whether sold pursuant to Rule 144, in a registered offering or otherwise.

(cc) The term “Registration Expenses” means all expenses incurred by the Company in complying with Sections 1.1, 2.2 and 2.3 hereof, including without limitation, all registration, qualification and filing fees, printing expenses, escrow fees, all “roadshow” expenses (if the underwriter or managing underwriter advises that a “roadshow” is advisable to complete the sale of the Registrable Securities proposed to be sold in an offering), any liability insurance or other premiums for insurance obtained in connection with any registration hereunder, fees and disbursements of counsel for the Company, blue sky fees and expenses, accounting fees of the Company (including expenses to obtain a customary comfort letter), the expense of any special audits incident to or required by any such registration, but excluding the Selling Expenses. Registration Expenses shall also include the reasonable fees and disbursements for one special counsel to the Holders per registration.

(dd) The term “Rule 144” means Rule 144 under the Securities Act, as such rule may be amended from time to time, or any successor or substitute rule, law or provision.

(ee) The term “Securities Act” means the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(ff) The term “SEC” means the United States Securities and Exchange Commission.

(gg) The term “Selling Expenses” means all underwriting discounts and selling commissions applicable to the sale of Registrable Securities pursuant to Sections 1.1, 2.2 and 2.3 hereof.

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

2. Registration Rights. The Company covenants and agrees as follows:

2.1 Demand for Registration. If at any time after six (6) months following the effective date of the Company’s IPO, the Company receives from the Initiating Holders a written request that the Company effect a registration pursuant to this Section 2.1 with respect to shares of Registrable Securities, the Company will:

(a) promptly and within ten (10) days after the receipt of such request, give written notice of the proposed registration to all other Holders; and

(b) file a registration statement under the Securities Act of all Registrable Securities which the Holders request to be registered, subject to the limitations of this Section 2.1, not sooner than five (5) Business Days but within thirty (30) days of the mailing of such notice by the Company in accordance with Section 3.7 hereof and effect such registration statement as soon as practicable.

(c) Notwithstanding the foregoing, the Company shall not be obligated to take any action to effect or complete any such registration pursuant to this Section 2.1:

(i) In any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(ii) Following the filing of, and for one hundred eighty (180) days immediately following the effective date of, any registration statement pertaining to Equity Securities of the Company (other than a registration of securities with respect to an employee benefit plan);

(iii) After the Company has effected two (2) such demand registrations pursuant to this Section 2.1; or

(iv) If the Initiating Holders propose to dispose of shares of Registrable Securities that may be immediately registered on Form F-3 pursuant to a request made pursuant to Section 2.3 below.

(d) Underwriting. In the event that the Initiating Holders intend to distribute the Registrable Securities by means of an underwriting, the Company shall advise the Holders as part of the notice given pursuant to Section 2.1(a) hereof that the right of any Holder to registration pursuant to this Section 2.1 shall be conditioned upon such Holder's participation in the underwriting arrangements required by this Section 2.1, and the inclusion of such Holder's Registrable Securities in the underwriting, to the extent requested, shall be limited to the extent provided herein.

All Holders proposing to distribute their securities through such underwriting shall (together with the Company) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Holders holding a majority of the Registrable Securities to be registered. Notwithstanding any other provision of this Section 2.1, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the Registrable Securities to be included in such registration to an amount no less than thirty percent (30%) of the Registrable Securities requested to be registered by the Holders. The securities held and requested to be included in such underwriting by the Company's directors, officers, employees, consultants and other shareholders shall be reduced completely before any reduction is made to the Registrable Securities held by the Holders. The Company shall so advise all Holders requesting to be included in the registration and underwriting, and the number of shares of Registrable Securities that the managing underwriter determines may be included in the registration and underwriting shall be allocated among all the Holders requesting to be included in the registration and underwriting in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by them at the time of filing the registration statement.

To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest one hundred (100) shares. If any Holder disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Company, the managing underwriter and the Initiating Holders. The Registrable Securities and/or other securities so withdrawn shall also be withdrawn from registration.

2.2 Company Registration.

(a) Notice of Registration. If at any time, or from time to time, the Company determines to register any of its Registrable Securities, either for its own account or the account of a Holder, other than (i) a registration relating solely to employee benefit plans or (ii) a registration relating solely to a Rule 145 transaction, the Company will:

(i) promptly and at least twenty (20) days before the anticipated filing date, give to each Holder written notice thereof; and

(ii) include in such registration (and any related qualifications including compliance with Blue Sky laws), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within ten (10) Business Days after the date of such written notice from the Company, by any Holder.

(b) Underwriting. If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise the Holders as a part of the written notice given pursuant to Section 2.2(a)(i) hereof. In such event, the right of any Holder to registration pursuant to Section 2.2 hereof shall be conditioned upon such Holder's participation in such underwriting and the inclusion of Registrable Securities in the underwriting shall be limited to the extent provided herein.

All Holders proposing to distribute their securities through such underwriting shall (together with the Company) enter into an underwriting agreement in customary form with the managing underwriter selected for such underwriting by the Company. Notwithstanding any other provision of this Section 2.2, if the managing underwriter determines that marketing factors require a limitation of the number of shares to be underwritten, the managing underwriter may limit the Registrable Securities to be included in such registration to an amount no less than thirty percent (30%) of the Registrable Securities requested to be registered by the Holders. The securities held and requested to be included in such underwriting by the Company's directors, officers, employees, consultants and other shareholders shall be reduced completely before any reduction is made to the Registrable Securities held by the Holders. The Company shall so advise all Holders requesting to be included in the registration and underwriting, and the number of shares of Registrable Securities that the managing underwriter determines may be included in the registration and underwriting shall be allocated among all the Holders requesting to be included in the registration and underwriting in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by them at the time of filing the registration statement.

To facilitate the allocation of shares in accordance with the above provisions, the Company or the underwriters may round the number of shares allocated to any Holder to the nearest one hundred (100) shares. If any Holder disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the managing underwriter and the Initiating Holders. The Registrable Securities and/or other securities so withdrawn shall also be withdrawn from registration.

(c) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 2.2 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration.

(d) If a Holder decides not to include any or all of its Registrable Securities in any registration statement thereafter filed by the Company under this Section 2.2, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement(s) as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth in this Agreement.

(e) Registration pursuant to this Section 2.2 shall not be deemed to be a demand registration as described in Section 2.1 above. Except as otherwise provided herein, there shall be no limit on the number of times any Holder may request registration of Registrable Securities under this Section 2.2.

2.3 Registration on Form F-3.

(a) Request for Registration. In case the Company receives from Holder(s) holding at least 20% of the then outstanding Registrable Securities (the “F-3 Initiating Holders”) a written request that the Company file a registration statement on Form F-3 or Form S-3 (or any successor form to Form F-3) for a public offering of shares of the Registrable Securities, and the Company is a registrant entitled to use Form F-3 to register the Registrable Securities for such an offering, the Company shall:

(i) promptly and at least ten (10) days before the anticipated filing date, give written notice to all other Holders of the proposed registration and offer them the opportunity to participate; and

(ii) use its reasonable best efforts to cause such Registrable Securities to be registered for the offering on such form as such Holder or Holders may reasonably request; in each case within thirty (30) days of the mailing of such notice by the Company in accordance with Section 3.7 hereof.

If such offer is to be an underwritten offer, the underwriters must be acceptable to both the Holders and the Company. In the event the registration is proposed by the F-3 Initiating Holders holding a majority of the Registrable Securities then held by all F-3 Initiating Holders to be part of a firm commitment underwritten public offering, the substantive provisions of Section 2.1(d) hereof shall be applicable to each such registration initiated under this Section 2.3.

(b) Notwithstanding the foregoing, the Company shall not be obligated to take any action pursuant to this Section 2.3:

(i) Following the filing of, and for one hundred eighty (180) days immediately following the effective date of, any registration statement pertaining to Equity Securities of the Company (other than a registration with respect to an employee benefit plan), provided that (A) the Company is actively employing in good faith its reasonable best efforts to cause such registration statement to become effective, and (B) the Registrable Securities of Holders have not been excluded (with respect to all or any portion of the Registrable Securities the Holders requested to be included in such registration) pursuant to the provisions of Sections 2.1(d) or 2.2(b);

(ii) In any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act; or

(iii) If the Company, within ten (10) days of the receipt of the request of the Initiating Holders, pursuant to this Section 2.3, gives notice of its bona fide intention to effect the filing of a registration statement pertaining to Equity Securities of the Company with the SEC within sixty (60) days of receipt of such request (other than with respect to a registration statement relating to an employee benefit plan), provided, that the Company is actively employing in good faith its reasonable best efforts to cause that registration statement to become effective within sixty (60) days of receipt of that request; provided, further, that the Holders are entitled to join such registration.

(c) Registration pursuant to this Section 2.3 shall not be deemed to be a demand registration as described in Section 2.1 above. Except as otherwise provided herein, there shall be no limit on the number of times any Holder may request registration of Registrable Securities under this Section 2.3.

2.4 Expenses of Registration. All Registration Expenses incurred in connection with (i) two (2) registrations pursuant to Section 2.1 hereof, (ii) all registrations pursuant to Section 2.2 hereof and (iii) all registrations pursuant to Section 2.3 hereof shall be borne by the Company. Notwithstanding the foregoing, in the event that Holders cause the Company to begin a registration pursuant to Section 2.1 or 2.3 hereof, and the request for such registration is subsequently withdrawn by the Holders (unless the withdrawal is based upon material adverse information concerning the Company of which the Holders were not aware at the time of such request, in which case the Company will bear all Registration Expenses relating to such withdrawn offering), all Holders shall be deemed to have forfeited their right to one registration under Section 2.1 or 2.3 hereof, as the case may be, unless the Initiating Holders with respect to a registration pursuant to Section 2.1 or the Holders with respect to a registration pursuant to Section 2.3 (as applicable) pay for, or reimburse the Company for, the Registration Expenses incurred by the Company in connection with such withdrawn or incomplete registration. Unless otherwise stated herein, all Selling Expenses relating to securities registered on behalf of the Holders shall be borne by the Holders of such securities pro rata on the basis of the number of shares so registered or proposed to be so registered.

2.5 Registration Procedures. In the case of each registration effected by the Company pursuant to this Agreement, the Company will keep each Holder advised in writing as to the initiation of such registration and as to the completion thereof. The Company will:

(a) Prepare and file with the SEC a registration statement with respect to such securities and use its reasonable best efforts to cause such registration statement to become and remain effective for at least one hundred eighty (180) days or until the distribution described in the registration statement has been completed; provided, however, that (i) such one hundred eighty (180) day period shall be extended for a period of time equal to the period the Holder refrains from selling any securities included in such registration at the request of an underwriter of Post-IPO Class A Ordinary Shares (or other securities) of the Company; and (ii) in the case of any registration of Registrable Securities on Form F-3 which are intended to be offered on a continuous or delayed basis, subject to compliance with applicable SEC rules, such one hundred eighty (180) day or a longer period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold. Notwithstanding the foregoing, the Company shall be entitled to suspend effectiveness of the registration statement for up to ninety (90) days if the Company shall furnish to the Holder a certificate signed by the Chief Executive Officer of the Company stating that in the good faith judgment of the Board of Directors of the Company (the "Board"), it would not be in the best interests of the Company and its shareholders for such registration statement to continue to be effective because the Company is engaged in any activity or transaction or preparations or negotiations for any activity or transaction ("Company Activity") that the Company has a bona fide business purpose for preserving as confidential, and the Company determines in good faith that the public disclosure requirement imposed on the Company pursuant to such registration statement would require premature disclosure of the Company Activity; provided, however, that the Company may not invoke this right more than once in any twelve (12) month period;

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement;

(c) Furnish to the Holders participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such Holders or underwriters may reasonably request in order to facilitate the public offering of such securities;

(d) Furnish, at the request of any Holder requesting registration of Registrable Securities, (i) an opinion, dated the date of such request, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering addressed, to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) a letter dated the date of such date, from the independent accountants of the Company, in form and substance as is customarily given by independent accountants to underwriters in an underwritten public offering addressed, to the underwriters, if any, and to the Holders requesting registration of Registrable Securities;

(e) Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdiction as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therein or as a condition thereto to qualify to do business or to file a general consent to service of process in any such jurisdiction unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(f) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering and take such other actions as are prudent and reasonably required in order to expedite or facilitate the disposition of Registrable Securities, including causing its officers to participate in “road shows” and other information meetings organized by the underwriter or the managing underwriter;

(g) Make available at reasonable times for inspection by any Holder of Registrable Securities being registered, any managing underwriter participating in any disposition of Registrable Securities pursuant to a registration statement, a Holder’s counsel and any other attorney, accountant or other agent retained by such Holder or any managing underwriter (each, an “Inspector”), all financial and other records, pertinent corporate documents and properties of the Company and its Subsidiaries as shall be reasonably necessary to enable them to exercise their due diligence responsibilities, and cause the Company’s and its Subsidiaries’ officers, directors and employees, and the independent public accountants of the Company, to supply all information reasonably requested by any such Inspector in connection with the registration statement;

(h) Notify each Holder covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of (i) the issuance of any stop order by the SEC in respect of such registration statement, or (ii) the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(i) Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed;

(j) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP (the Committee on Uniform Securities Identification Procedures) number for all such Registrable Securities, in each case not later than the effective date of such registration; and

(k) Take all other reasonable actions as are necessary to expedite or facilitate the disposition of the Registrable Securities in accordance with this Agreement.

2.6 Indemnification.

(a) The Company will indemnify each Holder, each of its officers, directors, partners, counsel, underwriters, and each person controlling such Holder within the meaning of the Securities Act or the Exchange Act, with respect to which registration has been effected pursuant to this Agreement, against all expenses, claims, losses, damages or liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such registration, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, or any violation by the Company of the Securities Act, the Exchange Act, state securities laws or any rule or regulation promulgated under such laws applicable to the Company in connection with any such registration, and the Company will reimburse each Holder, each of its officers, directors, partners, counsel, underwriters, and each person controlling such Holder, for any legal and any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case (i) to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission or alleged untrue statement or omission, made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by a Holder or any officer, director, partner, counsel, underwriter thereof or such Holder's controlling person, and stated to be specifically for use therein or (ii) if the delivery of the final disclosure document, or any supplement or amendment thereto, to any party by the Holder would have cured such untrue statement, alleged untrue statement, omission or alleged omission, and the Holder failed to deliver such circular, amendment or supplement, in each case with respect to the information concerning such Holder.

(b) Each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration is being effected, severally and not jointly indemnify the Company, each of its directors and officers, other holders of the Company's securities covered by such registration statement, each of such other holder's directors, officers, partners, each person controlling such other holder within the meaning of the Securities Act, each person who controls the Company within the meaning of the Securities Act, and each other Holder, each of its officers and directors and partners and each person controlling such other Holder within the meaning of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Holder of the Securities Act, the Exchange Act, state securities laws or any rule or regulation promulgated under such laws applicable to the Holder, and will reimburse the Company, such other Holders and holders, such directors, officers, partners or controlling persons for any legal or any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating or defending any such claim, loss, damage, liability or action, but only to the extent that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information concerning such Holder and furnished to the Company by an instrument duly executed by a Holder, and stated to be specifically for use in such registration statement, prospectus, offering circular or other document. Notwithstanding the foregoing, the liability of each Holder under this subsection 2.6(b) shall be limited to an amount equal to the net proceeds resulting from the Registrable Securities sold by such Holder in the relevant offering, unless such liability arises out of or is based on the willful misconduct of such Holder.

(c) Each party entitled to indemnification under this Section 2.6 (the “Indemnified Party”) shall give notice to the party required to provide indemnification (the “Indemnifying Party”) promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party’s expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement unless the failure to give such notice is materially prejudicial to an Indemnifying Party’s ability to defend such action or otherwise forfeits substantive rights or defenses of an Indemnifying Party and provided further, that the Indemnifying Party shall not assume the defense for matters as to which there is a conflict of interest or there are separate and different defenses. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party (whose consent shall not be unreasonably withheld), consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) If the indemnification provided for in this Section 2.6 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission (or alleged omission) to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties’ relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in actual and direct conflict with the foregoing provisions, the provisions in the underwriting agreement shall control. For the purposes of this Section 2.6(e), the failure of an underwriting agreement to provide indemnification to the Holder as provided in this Agreement shall not be deemed to be in conflict with the provisions of this Agreement and the indemnification provisions of this Section 2.6 shall remain in force.

(f) The obligations of the Company and the Holders under this Section 2.6 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 2.6, and otherwise.

2.7 Information by Holder. The Holder or Holders of Registrable Securities included in any registration shall furnish to the Company such information regarding such Holder or Holders, the Registrable Securities held by them and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration referred to in this Agreement.

2.8 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration, after completion of an initial registered public offering, the Company agrees to use reasonable best efforts to:

(a) Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date that the Company becomes subject to the reporting requirements of the Securities Act or the Exchange Act;

(b) File with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), a copy of the most recent annual or quarterly report of the Company, and such other reports and documents of the Company and other information in the possession of or reasonably obtainable by the Company as the Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing the Holder to sell any such securities without registration

2.9 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned (but only with all related obligations under this Agreement) by a Holder to a transferee or assignee of such securities, provided: (a) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; and (b) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement in the same capacity as the transferring or assigning Holder, including, without limitation, the provisions of Section 2.11 below.

2.10 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders holding at least a majority of the then outstanding Registrable Securities, grant, or cause or permit to be created, for the benefit of any person or entity any registration rights of any kind (whether similar to the demand, “piggyback” or Form F-3 registration rights described in this Section 2, or otherwise) relating to any securities of the Company which are senior to, or on a parity with, those granted to the Holders of the Registrable Securities.

2.11 “Market Standoff” Agreement.

(a) Each Holder hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the date of the final prospectus relating to the Company’s IPO or an subsequent firm commitment underwritten public offering (the “Lockup Start Date”) and ending on the date specified by the Company and the managing underwriter (such period not to exceed one hundred eighty (180) days in the case of the IPO and not to exceed ninety (90) days in the case of any such subsequent offering) (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Post-IPO Class A Ordinary Shares or any securities convertible into or exercisable or exchangeable for Post-IPO Class A Ordinary Shares held immediately prior to the Lockup Start Date, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Post-IPO Class A Ordinary Shares, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Post-IPO Class A Ordinary Shares or other securities, in cash or otherwise (such period, the “Market Standoff Period”). The foregoing provisions of this Section 2.11 shall only (x) be applicable to the Holders if all officers, directors and greater than one percent (1%) shareholders (on a fully diluted basis) of the Company enter into similar agreements and (y) to the extent requested by the managing underwriter. If the Company or any underwriter releases any officer or director of the Company or holder of one percent (1%) or more of the Company’s outstanding share capital from his or her or its sale restrictions so undertaken, then each Holder shall be notified prior to such release and shall itself be simultaneously released to the same proportional extent. The underwriters in connection with the Company’s IPO are intended third party beneficiaries of this Section 2.11 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto, to the extent necessary for them to enforce this Section 2.11. Each Holder further agrees to execute such agreements as may be reasonably requested by the underwriters in the Company’s IPO that are consistent with this Section 2.11 or that are necessary to give effect thereto. Any discretionary waiver or termination of the restrictions of any or all of such agreements by the Company or the underwriters shall apply to all Holders and other persons subject to such agreements pro rata based on the number of shares (on a fully diluted basis) subject to such agreements.

2.12 Restrictions on Public Sale by the Company. The Company agrees not to effect any public offering, sale or distribution of any of its Equity Securities (except pursuant to registrations on F-4 or S-8 or any successor thereto), during the period beginning on the effective date of any registration statement in which the Holders are participating and ending on the earlier of (a) the date on which all Registrable Securities registered on such registration statement are sold and (b) 120 days after the effective date of such registration statement (except as part of such registration).

2.13 Termination of Registration Rights. The rights granted pursuant to Sections 1.1, 2.2 and 2.3 of this Agreement shall terminate, with respect to a particular Holder, whenever such Holder is eligible to sell all its shares of Registrable Securities under Rule 144 during any three (3) month period.

3. Miscellaneous.

3.1 Jurisdiction. This Agreement is drafted primarily in contemplation of an IPO in the United States, which the parties recognize may or may not actually occur. In the event the Company completes an IPO in the United States in the form of American depository receipts (representing American depository shares), rather than Post-IPO Class A Ordinary Shares, the term “Registrable Securities” and the provisions of this Agreement in respect of Registrable Securities shall apply *mutatis mutandis* to such American depository shares, with appropriate adjustments, if any, to give effect to the intention of the parties in such provisions. The parties further agree that, in the event the Company does not complete an IPO in the United States, but rather intends to complete an initial public offering of Post-IPO Class A Ordinary Shares, and the listing or admission for quotation of Post-IPO Class A Ordinary Shares on a securities exchange or quotation system, in a jurisdiction outside the United States, the Parties shall, within a reasonable time prior to the completion of such initial public offering, enter into an agreement replacing this Agreement which shall apply *mutatis mutandis*, with appropriate adjustments or necessary or advisable to give effect to the intention of the Parties as to the substantive provisions, rights, and obligations of the Parties under this Agreement, and shall take such other actions as may be reasonably required under the applicable securities laws and regulations of such jurisdiction and the applicable rules of such securities exchange or quotation system in order for the Holder to be able to freely sell, under such laws and regulations, all or part of its Registrable Securities from time to time. Each Party further agrees that it shall act (within its power) and cooperate in good faith to give effect to the intention of the Parties as provided in Section 2 hereof.

3.2 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the Parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement

3.3 Share Calculations. In calculations of share numbers, references to “fully diluted basis” mean that the calculation is to be made assuming that all outstanding options, warrants and other Equity Securities convertible into or exercisable or exchangeable for Post-IPO Class A Ordinary Shares (whether or not by their terms then currently convertible) have been so converted, exercised or exchanged, and references to “non-diluted basis” mean the calculation is to be made taken into account only Shares then in issue. All references to number of shares in this Agreement shall be appropriately adjusted to take into account any share splits, combinations, reorganizations, share dividends, mergers, recapitalizations similar events that affect the share capital of the Company the date hereof.

3.4 Governing Law and Dispute Resolution.

(a) This Agreement shall be governed by and construed under the laws of the State of New York as applied to agreements among New York residents entered into and to be performed entirely within New York, without regard to principles of conflict of laws thereunder.

(b) 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 (1) 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.

(c) In the event of two or more arbitrations having been commenced under this Agreement, the tribunal in the arbitration first filed (the "Principal Tribunal") may in its sole discretion, upon the application of any party to the arbitrations, order that the proceedings be consolidated before the Principal Tribunal, which will have the jurisdiction to resolve all disputes forming part of the consolidation order, if (i) there are issues of fact and/or law common to the arbitrations, (ii) the interests of justice and efficiency would be served by such a consolidation, and (iii) no prejudice would be caused to any party in any material respect as a result of such consolidation, whether through undue delay or otherwise. Such application shall be made as soon as practicable and the party making such application shall give notice to the other parties to the arbitrations.

3.5 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

3.6 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

3.7 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail if sent during normal business hours of the recipient, and if not, then on the next Business Day, (iii) when sent by facsimile at the number shown below the signature of each party on the signature page of this Agreement, upon receipt of confirmation of error-free transmission, or (iv) three (3) Business Days after deposit with an international reputable overnight delivery service, postage prepaid, sent to the address shown below the signature of each party on the signature page of this Agreement (or at such other addresses as shall be specified by notice given in accordance with this Section 3.7), with next- or second-business-day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

3.8 Entire Agreement; Amendments and Waivers. This Agreement (including the Exhibits hereto, if any) constitutes the full and entire understanding and agreement among the parties with regard to the subjects hereof and thereof. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Parties. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each Party.

3.9 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

3.10 Specific Performance. The Parties hereto acknowledge that, in view of the transactions contemplated by this Agreement, each Party would not have an adequate remedy at law for money damages in the event that this Agreement has not been performed in accordance with its terms, and therefore agrees that the non-breaching Party(ies) shall be entitled to specific enforcement of the terms hereof in addition to any other remedy to which such non-breaching Party(ies) may be entitled at law or in equity.

3.11 No Waiver. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such term, covenant, or condition, nor will any waiver or relinquishment of, or failure to insist upon strict compliance with, any right, power or remedy hereunder at any one or more times be deemed a waiver or relinquishment of such right, power or remedy at any other time or times.

3.12 Further Assurances. Upon the terms and subject to the conditions herein, each of the Parties hereto agrees to use its reasonable best efforts to take or cause to be taken all action, to do or cause to be done, to execute such further instruments, and to assist and cooperate with the other Parties hereto in doing, all things necessary, proper or advisable under applicable laws or otherwise to consummate and make effective, in the most expeditious manner practicable, the transactions contemplated by this Agreement and, to the extent reasonably requested by another Party, to enforce rights and obligations pursuant hereto.

3.13 Attorney's Fees. In the event that any dispute among the Parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

[SIGNATURE PAGES FOLLOW]

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

COMPANY:

SOGO INC.

By: _____

Name: Xiaochuan Wang

Title: Chief Executive Officer

Address:

Level 12, Sohu.com Internet Plaza

No. 1 Unit Zhongguancun East Road, Haidian District

Beijing 100084, People's Republic of China

SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT

HOLDER:

SOHU.COM (SEARCH) LIMITED

By: _____

Name: Joanna Lv

Title: Acting Chief Financial Officer

Address:

c/o Sohu.com Inc.

Level 18, Sohu.com Media Plaza

Block 3, No. 2 Kexueyuan South Road, Haidian District

Beijing 100190, People's Republic of China

HOLDER:

THL A21 LIMITED

By: _____

Name:

Title:

Address:

c/o Tencent Holdings Limited

Level 29, Three Pacific Place

1 Queen's Road East

Wanchai, Hong Kong

Attention: Corporate Counsel

SIGNATURE PAGE TO REGISTRATION RIGHTS AGREEMENT

HOLDER:

PHOTON GROUP LIMITED

By: _____

Name:

Title:

Address:

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

English Translation

**Second Amended and Restated
Mobile Browser Cooperation Agreement**

This Second Amended and Restated Mobile Browser Cooperation Agreement on (this “**Agreement**”) dated September 25, 2017 is made by and among:

- (1) **Shenzhen Tencent Computer Systems Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address is at 5-10F, FIYTA Building, High-tech South 1st Road, Hi-tech Park, Nanshan District, Shenzhen (“**Tencent**”);
- (2) **Sogou Inc.**, a corporation duly established and valid existing under the laws of the Cayman Islands, whose legal address is at Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands (“**Sogou Inc.**”);
- (3) **Beijing Sogou Technology Development Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address is at Room 01, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou China**”);
- (4) **Beijing Sogou Network Technology Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address is at Suite 1916, Building 4, No. 1 Park Wangzhuang Road, Haidian District, Beijing (“**Sogou Network**”);
- (5) **Beijing Sogou Information Service Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address is at Room 02, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou Information**”);

(6) **Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.**, a corporation duly established and valid existing under the laws of the People's Republic of China, whose legal address is at 16/F, Tencent Building, Kejizhongyi Avenue, Yuehai Street, Nanshan District, Shenzhen, Guangdong Province, China ("**Shi Ji Guang Su**")

Sogou Inc., Sogou China, Sogou Network, Sogou Information and Shi Ji Guang Su are collectively referred to as "**Sogou**". Tencent and Sogou shall hereinafter be referred to individually as a "**Party**", and collectively as the "**Parties**".

To exploit and promote **Tencent** mobile browser market, the Parties have executed a **Business Development and Resource Sharing Agreement** dated September 16, 2013 and executed an **Amended and Restated Business Cooperation Agreement on Mobile Browser** dated March 31, 2014 (the "**Original Agreement**") to amend, restate and replace the abovementioned **Business Development and Resource Sharing Agreement**. The Parties hereby agree to make further amendment and restatement to the Original Agreement and reach this Agreement through friendly discussion as follows:

Article 1 Cooperation on Tencent Mobile Browser Search Tools

1.1 The Parties agree that, from the effective date of this Agreement (the "**Starting Date**") to September 15, 2018 (the "**Expiration Date**") (hereinafter referred to as the "**Cooperation Period**"), **Sogou** search tool will always be the default search tool for **Tencent** mobile browser, but the mobile directory function endogenous in **Tencent** mobile browser will be exclusively developed and operated by **Tencent**, provided that users of **Tencent** mobile browser have the right to choose other search tools when using **Tencent** mobile browser. **Sogou** will provide a search interface for **Tencent** mobile browser.

The revenue actually received ("**Revenue Received**", namely, the revenue brought by search traffic imported by **Tencent** mobile browser deducting **Sogou**'s operating expenses) by **Sogou** from search traffic imported by **Tencent** mobile browser shall be distributed according to the following proportions: * % of all **Revenue Received** to **Tencent** and the remaining * % to **Sogou**. From the **Starting Date** to the **Expiration Date**, the **Parties** may adjust such proportions from time to time in the form of written agreement.

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

- 1.2 The **Parties** agree that, during the **Cooperation Period**, they will settle the **Revenue Received** by month, **Sogou** shall, after the end of each month and within thirty (30) days after the receipt of formal VAT special invoices issued by **Tencent**, remit the share of revenue distributable to **Tencent** to the bank account designated by **Tencent**, and provide **Tencent** with a monthly report, illustrating the total amount and breakdown of the **Revenue Received** in the month.
- 1.3 **Sogou** shall properly maintain and preserve related financial books and records. With a written notice seven (7) days in advance, **Tencent** shall be entitled to audit such books and records each year, so as to confirm the **Revenue Received** based on which distribution shall be made. Any audit under this Article 1.3 shall be conducted in normal working hours in the office location of **Sogou** in a manner that minimizes the disturbance on normal business operations, and the audit institution shall be mutually selected by both **Parties**. **Tencent** shall bear the costs and expenses of such audit, but in the case the audited **Revenue Received** exceeds the amount reported by **Sogou** by over 10%, the audit costs and expenses shall be borne by **Sogou**.
- 1.4 During the **Cooperation Period**, **Sogou** shall use its best endeavors to make sure its search services involve (i) no serious violation of laws or regulations, or to take timely and effective measures to remove any violating content once detected, and (ii) no operational behavior impairing the brand image and reputation of **Tencent**. Once any violation of such requirements were found, **Tencent** shall be entitled to require **Sogou** to make immediate rectification and to compensate **Tencent** for its losses actually incurred from such violation.
- 1.5 During the **Cooperation Period**, if **Sogou** seriously breaches its obligations hereunder (including but not limited to the provisions of Articles 1.2 and 1.4) and fails to rectify at the request of **Tencent**, **Tencent** shall be entitled to terminate this **Agreement** by notice in writing at its own discretion. During the **Cooperation Period**, if **Tencent** seriously breaches its obligations hereunder and fails to rectify at the request of **Sogou**, **Sogou** shall be entitled to terminate this **Agreement** by notice in writing at its own discretion.
- 1.6 If **Sogou** successfully completes its IPO from the execution date of this **Agreement** to the **Expiration Date**, the **Parties** hereby agree to extend the **Expiration Date** from September 15, 2018 to September 15, 2023.

Article 2 Early Termination

- 2.1 Under the following circumstances, **Tencent** shall be entitled to immediately terminate this **Agreement** by written notice to the other **Parties**:
 - (a) if (i) **Sogou Inc.** issues or sells any shares or **Equity**

Interests directly or indirectly to any **Restricted Person**, or (ii) **Sohu** sells any shares or **Equity Interests** of **Sogou Inc.** directly or indirectly to any **Restricted Person**;

Notwithstanding the foregoing, after the completion of the US IPO of **Sogou Inc.**, **Sogou Inc.** and **Sohu** can sell **Sogou Inc.**'s shares or **Equity Interests** through open market transactions, provided that the sale is conducted through open market transactions and the seller, the underwriter or broker (as the case may be) does not specifically arrange for the distribution or sale of shares or **Equity Interests** to any **Restricted Person**; and, in the event that a **Restricted Person** purchases **Sogou Inc.**'s shares or **Equity Interests** through an open market transaction, the purchase shall not be deemed as a termination event as long as **Sohu** or **Sogou Inc.** does not, in any way, provide any convenience for the purchase; or

(b) there is any Change of Control of **Sohu**, and the **Restricted Person** has acquired the Control of **Sohu**.

2.2 The relevant definitions are as follows:

(a) "**Sohu**" means Sohu.com (Search) Limited, Sohu.com Inc. and any other Sohu.com Inc. through which Sohu.com Inc. obtains Control over Sohu.com (Search) Limited;

(b) in respect of any person, "**Equity Interests**" mean the equity capital, membership interests, partnership interests, registered capital, ownership interests of joint venture or other forms, options, warrants, and other securities which can be directly or indirectly changed into, or can obtain or convert into such equity capital, membership interests, registered capital, ownership interests of joint venture or other forms, of such person (whether such derivative securities are issued by such person or not);

- (c) “**Restricted Person**” means any person and any of its **Affiliated Companies** that has been confirmed by the **Parties** in writing from time to time;
- (d) “**Affiliated Companies**” mean (i) in the case of a person other than a natural person, any other person who, directly or indirectly, Controls such person, is Controlled by such person or under common Control with such person, and (ii) in the case of a natural person, any person who is directly or indirectly Controlled by such person, or Relatives of such person. “**Relatives**” mean a natural person’s spouse, parents, grandparents, children, grandchildren, siblings, the siblings of such person’s parents, the children of such person’s siblings, the great-grandparents or the spouses of the foregoing (if any);
- (e) “**Change of Control**” of a person means the circumstance under which such person is merged or consolidated with any other person or such person is merged or consolidated into any other person or after such person’s Equity Interest is acquired, the person controlling such person shall immediately no longer have any direct or indirect control over such person;
- (f) In respect of any person, “**Control**” means (i) holding more than 50% of the issued shares or other equities or registered capital of such person, or (ii) being capable of dominating such person’s management or policy through owning more than 50% of the voting rights in such person or through the right to appoint the majority of the members of the board of directors or similar management organization, or by contractual arrangements or otherwise.

Article 3 Confidentiality

- 3.1 General Obligations. Each Party undertakes to the other Parties that, without the prior written consent of the Party concerned (as the case may be), it will not and will procure its directors, equity holders, management, employees, agents or **Affiliated Companies** (collectively referred to as “**Representatives**”) not to disclose any Confidential Information to any third party, or use the Confidential Information in a way detrimental to any other **Party** (as the case may be). For purposes of this Article 3, the term “**Confidential Information**” refers to (a) information concerning the formation, operation, technology, intellectual property, safety records, investment, finance, transactions or other affairs of any Party, or information concerning the directors, management or employees of the Party (whether such information is transmitted in oral, written or other forms, and whether provided on, before or after the New Starting Date); (b) provisions of this Agreement, the identity of the Parties and their respective **Affiliated Companies**; and (c) any other information prepared by any Party or any Representative that contains or otherwise reflects or is generated or derived from the information specified in item (a) above.

3.2 Exceptions. Article 3.1 of this Agreement shall not apply to:

- (a) Disclosure of **Confidential Information** that is or becomes generally available to the public through no breach of this **Agreement** by any **Party** or any **Representative**;
- (b) Disclosure made by a **Party** to its **Representative** or certain **Affiliated Companies** who need to know such information for performance of its obligations or exercise of its rights hereunder, provided that such **Representative** or **Affiliated Companies** (i) is subject to similar confidentiality obligations, or (ii) is subject to other binding professional confidentiality obligations; or
- (c) Disclosure required by rules of any stock exchange in which the shares of any **Party** or its parent company are listed or applicable legal, judicial or regulatory proceedings, or disclosure relating to any legal action, litigation or proceeding arising from or in connection with this **Agreement**, provided that the other **Parties** (as the case may be) shall be informed in advance to the extent feasible and any possible arrangement shall be made for confidential treatment.

- 3.3 **Publicity.** Each **Party** shall not, and each **Party** shall procure its management, employees, agents, **Affiliated Companies** and the management, employees and agents of such **Affiliated Companies** not to, release any public announcement or make any remark on this **Agreement** or matters contemplated under this **Agreement** without consultation with, and written consent from, the **Party** concerned (as the case may be), unless required by laws or stock exchange rules, made pursuant to a court order, requested by the stock exchange on which the shares of such **Party** or its **Affiliated Companies** are listed, or required by any governmental or regulatory agency.

Article 4 Notice

- 4.1 Any and all notices among the **Parties** shall be written in Chinese and sent by personal delivery, registered airmail, fax or email to the following addresses:

If to Tencent:

Address: Tencent Building, Kejizhongyi Avenue, Nanshan District, Shenzhen, Guangdong Province, P.R.C.

Postal code: 518057

Recipient: Compliance Transaction Department

Email: legalnotice@tencent.com

With a copy to:

Address: Tencent Building, Kejizhongyi Avenue, Nanshan District, Shenzhen, Guangdong Province, P.R.C.

Postal code: 518057

Recipient: Investment & Merger Department

Email: PD_Support@tencent.com

If to Sogou Inc.:

Sogou Inc.

Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands

With a copy to **Sogou Information** as follows

If to Sogou China, Sogou Network or Sogou Information, Shi Ji Guang Su:

Recipient: Zhou Yi

Email: yizhou@sohu-inc.com

Tel: +86 10 5641 2878

Address: SOHU.com Internet Plaza, No.1 Park Zhongguancun East Road, Beijing,

Postal code: 100084

4.2 Any notice shall be deemed to have been served:

on the date of delivery if sent by personal delivery;

seven (7) days from the date of posting (as evidenced by postmark) if sent by registered airmail;

on the first working day after the date of transmission if sent by facsimile or telegraph;

on the date on which the email reaches the server of the recipient if sent by email.

4.3 Any Party may change its address for notice at any time by delivering a written notice to all other Parties in accordance with this Article 4.

Article 5 Miscellaneous

- 5.1 Effectiveness. This **Agreement** is sealed or signed by and among the **Parties** and shall become effective on the day and year first written above. This **Agreement** is an amendment and restatement of the **Original Agreement** and shall supersede the **Original Agreement**. The **Original Agreement** shall automatically be terminated at the same time as this **Agreement** becomes effective. For the avoidance of doubt, the termination of the **Original Agreement** does not affect the rights and obligations of the **Parties** in respect of the settlement of **Revenue Received** under the **Original Agreement** that has not yet been fulfilled before the effectiveness of this **Agreement**, and the **Parties** to the rights and obligations shall continue to perform.
- 5.2 Modification. Unless otherwise expressly provided herein, no modification, alteration or supplementary to this Agreement shall be effective unless made in writing and signed by each of the Parties. This Agreement will not affect any relationship existing among the Parties (if any) by contract or otherwise.
- 5.3 Binding Force, Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their successors and permitted assigners. None of the Parties may assign this Agreement without the prior written consent of all other Parties.
- 5.4 Governing Law; Dispute Resolution. The Parties explicitly acknowledge that, this Agreement and any dispute, controversy or claim arising from or in any way related to this Agreement or behaviors of the Parties hereto shall be governed by the laws of the PRC. Any such dispute arising from the performance of this Agreement or in connection with this Agreement shall be settled through friendly negotiation among the Parties; if such negotiation fails, any Party may submit the dispute to Shanghai Arbitration Commission for arbitration in Shanghai in accordance with its arbitration rules then in force. The arbitration award shall be final and binding upon all Parties.

- 5.5 No Waiver. No failure of a Party to exercise any right, power or benefit under this Agreement shall operate as a waiver of that right, power or benefit, nor shall any single or partial exercise of any right, power or benefit prevent the exercise of any other right, power or benefit.
- 5.6 Severability. If one or more provisions of this Agreement are held to be invalid or unenforceable, the remaining provisions of this Agreement shall remain in force.
- 5.7 Force Majeure. If the performance of this Agreement is delayed, hindered or made impractical due to any reason beyond the reasonable control of the affected party, including but not limited to natural disaster, war, riot, insurrection, embargo or other government restrictions (except unfavourable economic conditions, exchange rate fluctuations or insolvency) (each a "**Force Majeure Event**"), the obligations of the Parties hereto shall be deemed to have been suspended without giving rise to any liability for damage. The Party affected shall promptly inform the other Parties of the nature and scope of any actual or anticipated Force Majeure Event, and shall take all reasonable steps to mitigate the impact of the Force Majeure Event.
- 5.8 Relationship of the Parties; Independent Contractor. Nothing in this **Agreement** is intended to, or shall be deemed to, make any **Party** a legal representative or agent of any other **Party**; none of the **Parties** have the right or authority to incur any responsibility or obligation in the name of or on behalf of any other **Party**.
- 5.9 Liability for Breach of Contract. If any **Party** fails to properly perform any of its obligations hereunder, the non-breaching party shall be entitled to notify the breaching party to rectify such breach and perform its due obligations within a reasonable period of time. If the breaching party fails to rectify its breach within the prescribed period of time, the non-breaching party shall be entitled to seek any possible remedy according to applicable laws, including but not limited to claiming for compensation.

- 5.10 Taxes and Fees. Unless otherwise provided in this **Agreement**, each **Party** shall bear and pay its own taxes and fees incurred hereunder, including but not limited to taxes, legal fees, accounting fees and other type of fees.
- 5.11 Headings. The clause headings in this **Agreement** have been inserted for convenience only and shall not constitute a part of this **Agreement**.
- 5.12 Counterparts. This **Agreement** may be executed in any number of counterparts, each of which when executed and delivered shall constitute an original, but all the counterparts shall together constitute one and the same instrument.

[The remainder of the page intentionally left blank.]

IN WITNESS WHEREOF, the **Parties** hereto have caused this **Agreement** to be executed by their respective duly authorized representatives on the date and year first written above.

Shenzhen Tencent Computer Systems Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Technology Development Co., Ltd.

(Seal)

Sogou Inc.

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Network Technology Co., Ltd.

(Seal)

Signature: _____

Name: _____

Title: _____

Beijing Sogou Information Service Co., Ltd.

(Seal)

Signature: _____

Name: _____

Title: _____

Signature: _____

Name: _____

Title: _____

Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.

(Seal)

Signature: _____

Name: _____

Title: _____

Cooperation Agreement
between
Weixin Official Platform
and
Sogou Search

Agreement No.: [17-SD-00731]

Party A: Shenzhen Tencent Computer Systems Co., Ltd.

Contact person:
Mailing address:
Tel:
Email:

Party B: Beijing Sogou Information Service Co., Ltd.

Contact person: Han Yifan
Mailing address: 7/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing
Tel: 56898391
E-mail: hanyifan@sogou-inc.com

Whereas:

1. Party A, Party B and their relevant affiliates entered into a Business Development and Resource Sharing Agreement on September 16, 2013, whereby the parties entered into a strategic cooperation;
2. Party B desires to use public data on Party A's Weixin official platform to provide search services, and both parties have negotiated their intentions in respect of such cooperation;
3. Party A and Party B signed No. 14-SGO-04344, No. 15-SD-10681 and No. 17-SD-10269 Cooperation Agreements between Weixin Official Platform and Sogou Search (the "Original Agreements") in May 2014 and November 2015 and on March 21, 2017, respectively.

NOW THEREFORE, in order to specify the terms of the cooperation, establish data usage specifications, and safeguard the legitimate rights and interests of Weixin official platform users, Party A and Party B hereby enter into the following cooperation agreement in line with the principle of equality and mutual benefits and win-win cooperation:

Confidential Information

Chapter I Definitions and Interpretations

I. Definitions

Unless otherwise defined in this Agreement, the following terms shall have the following specific meanings:

1. Chinese Law:

Referring to any laws, rules, regulations, judicial interpretations and other legal norms currently in force and promulgated and implemented in the future in jurisdictions of mainland China.

2. Official Platform Data and Contents:

Referring to the public contents on Party A's Weixin official platform, including but not limited to public registration information of official platform subscription accounts and service account operators, and all information publicly distributed by official platform subscription accounts and service account operators through Weixin official platform (different from point-to-point information and region or subscriber specific information), the specific scope of contents of which shall be subject to the assessment and determination by Party A according to law.

3. Sogou Search Services:

Referring to such search services as content retrieval and result response on Sogou search engines, including PC end (www.sogou.com, www.soso.com) and wireless end (including Sogou, Soso mobile web search and Sogou search app client), based on Official Platform Data and Contents.

4. Trade Secrets:

Referring to the technical, financial, commercial and other information owned by either party hereto and/or its subsidiaries or affiliated companies and treated by such party as trade secrets, which have the following characteristics:

- (a) Unknown to the public;
- (b) Able to bring economic benefits to the right owner;
- (c) Being practical; and
- (d) Treated by the right owner as secrets and appropriate protective measures having been taken for it.

5. Force Majeure:

Referring to earthquake, typhoon, fire, flood, war, strike, riot, hacker attack, operator technical failure or change of policy or any other natural or man-made disaster occurred during the term of this Agreement, which is unpredictable (or the occurrence or consequences of which is inevitable even though predictable) and beyond the control of either party and renders the full performance by either party of this Agreement impossible.

6. Official Platform Source Pages:

The source pages (currently bearing a domain suffix of weixin.qq.com) under Weixin official platform, or other pages designated by Weixin official platform.

II. Interpretations

1. Unless explicitly indicated as working days, the term “day” mentioned herein refers to calendar day.
2. The headings contained in this Agreement are for reference purposes only, and shall not affect the meaning or interpretation of any part of this Agreement.
3. As the context requires, the plural shall include the singular and vice versa.
4. A reference to a chapter, clause and paragraph shall be a reference to a chapter, clause and paragraph of this Agreement.

Chapter II Representations and Warranties

III. Legal Status

Each party represents and warrants that, from the signing date of this Agreement:

1. It is qualified to engage in the transaction hereunder, and such transaction complies with its business scope;
2. It has full power to enter into this Agreement and to perform its obligations hereunder;
3. Its authorized representative has sufficient authority to sign this Agreement on its behalf.

IV. Legal Force

1. From the effective date, this Agreement shall be legally binding upon both parties.
2. Each party warrants that its execution and performance of this Agreement and the business transactions carried out pursuant to this Agreement will not violate any Chinese Law.

Chapter III Cooperation Contents, and Rights and Obligations of the Parties

V. Cooperation Contents and Scope

1. During the term of this Agreement, Party A and Party B will cooperate, based on Official Platform Data and Contents, in providing users in mainland China (excluding Hong Kong, Macao and Taiwan) with Sogou Search Services. Except for Official Platform Data and Contents (limited to data provided by Party A) prescribed herein, Sogou shall not grab, acquire or use other contents involving Weixin or Weixin official platform in any way including through a Spider program or through any third party channels.
2. During the term of this Agreement, in the form of inventory plus regular increment (the update frequency to be separately determined by the parties through negotiation), Party A will provide Party B with Official Platform Data and Contents and provide users in mainland China (excluding Hong Kong, Macao and Taiwan) with Sogou Search Services based on the foregoing data. The specific form in which the service will be displayed and the product scheme of Party B shall be used and put online only after they are confirmed by Party A in writing (including by email).

3. During the term of this Agreement, in addition to the cooperation prescribed in this Agreement, Party B will also promote Party A's official platform products in a manner agreed by the parties by utilizing Party B's own user platforms and flow resources.
4. During the term of this Agreement, Party B shall, according to Party A's requirements, provide related popular search words, hit rate, classification, search volume, click rate and other related data of search services based on Official Platform Data and Contents for Party A to manage user operation and improve user experience. Except for the Official Platform Data and Contents searched on Weixin app client pages, the Official Platform Data and Contents search services provided by Party B shall not provide and display to users the reading volume, "like" quantity and other related data. Party A shall keep the above data confidential, and without the prior written consent of Party B, Party A shall not publish, provide or reveal the above data to any third party. In addition, Party B shall take reasonable and effective technical measures to ensure the security of Official Platform Data and Contents provided by Party A, including but not limited to measures to prevent any third party from grabbing, acquiring and using official platform data in Party B's products by artificial or technical means, and Party A shall be entitled to limit, suspend, partially or entirely terminate the provision of official platform data hereunder.
5. During the term of this Agreement, as to default search results, Party B will display the top 100 official platform data search results for viewing. If the user needs to view more search results, the user shall log in with the applicable account. In such a strategy restricting unlogged users of Party B's products from viewing official platform data search results and similar strategies displaying varied search results by logging status, user level and other standards, unless with the written consent of Party A, Party B shall only offer the Weixin authorized logging, and logging in through third-party authorization shall be prohibited.
6. Party A authorizes Party B to provide Sogou Search Services in respect of Official Platform Data and Contents only in mainland China (excluding Hong Kong, Macao and Taiwan) and for noncommercial purposes. The explicit prior written consent of Party A is required if Party B needs to use Official Platform Data and Contents in any other territory, in any other form or for commercial purposes.
7. Neither party is required to pay to the other party or any third party any fees in respect of the cooperation hereunder.
8. Without the consent of Party A, Party B shall not, itself or assist any third party to, develop or put online any ranking lists or influence lists or other ranking products or functions of any Weixin official account or its articles and other information and contents, and shall not use the data, information and contents acquired from the cooperation hereunder to realize such products or functions.
9. Without the consent of Party A, Party B shall not provide subscription systems independent from Weixin official platform (i.e., users may not subscribe or collect data or contents of Weixin official platform through any platform other than Weixin official platform), and shall not use or use in a disguised way data or contents of Weixin official platform to provide any product or service that is the same as or similar to Weixin official platform products, functions or interfaces. Party B also undertakes not to, and not to assist any third party to, put online such functions.

VI. Rights and Obligations of the Parties

1. Each party confirms that the documents it provides to the other party (including but not limited to business registration, tax registration and other commercial documents) are true and free from misrepresentation or fraud.
2. Party A warrants that it has the power to provide Party B with Official Platform Data and Contents according to this Agreement, and to provide Official Platform Data and Contents and updates thereof according to cooperation needs. Party A shall also use reasonable commercial efforts to make sure that data information is timely provided to Party B.
3. Party A shall use reasonable commercial efforts to make sure the data interfaces and data fields it provides meet the invocation timeliness and quality requirements as agreed upon by the parties.
4. When using Official Platform Data and Contents, Party B shall indicate that they are sourced from Party A. Party B is obliged to correctly and completely indicate the data source to be Party A and mark "services provided by Party A", and such use of Party A's product name shall be confirmed by Party A in writing.
5. The Official Platform Data and Contents hereunder are for use by Party B in Sogou Search Services only, and without the written permission of Party A, Party B shall not use the related data and contents for any form of sales and commercial utilization other than the purposes prescribed hereby (including but not limited to bidding rank), or reveal, provide or permit any third party to use the same in any way.
6. Party B may exhibit Weixin official platform information and contents in any of the following manners: (1) Weixin Official Platform Source Pages; and (2) a typographic style set by Party B and agreed by Party A.
7. If Party B chooses to exhibit Weixin official platform information and contents in the manner prescribed in item (2) above, it shall submit in writing a typographic style for exhibiting Weixin official platform information and contents to Party A for assessment, independent judgment and approval in advance. If Party A approves the typographic style, the data and contents will be put out in the typographic style provided by Party B for display by Party B; otherwise, Party B shall not display Weixin official platform information and contents in any way other than Weixin Official Platform Source Pages. Party B may exhibit Weixin official platform information and contents only in the typographic style approved by Party A, and shall make sure the pages are under the domain name of Party B only. Party B shall not edit, sort or organize Weixin official platform data without authorization or exhibit the same in a way other than the typographic style approved.

8. Party B's display of plugins or functions auxiliary to Official Platform Source Pages, including link to home page (profile) of Weixin official account, link to Weixin advertisement system, and comment function, must be linked to their source pages, rather than displaying them in any form other than Weixin Official Platform Source Pages, and Party B shall not shelter, insert in, or hinder by pop-up windows in any form any auxiliary plugins or functions. When any user of Party B logs into his Weixin account, his browsing and reading of Weixin official platform information and contents, number of "likes" given and other recording data shall be synchronized with Party A in a way prescribed by Party A. Party B shall make sure such user can normally use "like", comment and other plugins and functions that are provided by Party A and auxiliary to source pages.
9. When exhibiting official platform data, Party B shall guide and instruct its users to follow the Weixin official account that releases such content, and such guidance and instruction shall be obvious, accurate, effective and clear.
10. During the performance of this Agreement, Party B shall take safe, effective and rigorous measures to prevent any third party other than parties hereto from grabbing, intercepting, acquiring and using official platform data in any way including but not limited to a Spider program.
11. During the performance of this Agreement, Party B may not set up any subscription systems independent from Weixin official platform based on Weixin Official Platform Data and Contents.
12. The written consent (including email, Weixin, or QQ discussion group of personnel designated by the parties) from Party A shall be obtained before the name of any product or service relating to Party A (including but not limited to Weixin) as prepared or edited by Party B is put online.
13. Without the approval and consent of Party A, Party B shall not itself use or authorize any third party to use "Weixin", "official account", "official platform" and other terms or expressions in connection with Weixin or Weixin official platform in the name of any existing or future function, application or product. If any existing or future function, application or product of Party B uses any official platform data, the name of which shall be submitted to Party A for examination beforehand, without the approval and consent of Party A, Party B shall not itself use or authorize any third party to use such names. For purposes of this clause, the examination period of Party A will be 5 working days. The failure of Party A to give a reply during the examination period shall be deemed as a rejection.
14. Party B shall immediately rectify its products and services (including but not limited to "Weixin headlines") which have been put online in accordance with the rights, obligations and cooperation terms prescribed hereby. If Party B fails to complete the rectification within the time limit specified by Party A, then Party A shall be entitled to claim for liability for breach of contract according to this Agreement. Moreover, during the rectification period, Party A has the right to suspend providing data to Party B and to request Party B to delete the existing data.

VII. Operation Specifications

Party B shall comply with the provisions of Weixin official platform operation rules, including *Weixin Official Platform Service Agreement*, *Weixin Official Platform Operation Specifications*, *Tencent Service Agreement*, *Software Licensing and Service Agreement of Tencent Weixin* and related specific rules. The related rules are published by Party A on relevant webpages and will be updated according to statutory requirements and operational needs. When any update requires any business adjustment by Party B, Party A shall inform Party B of such in advance.

VIII. Security Strategy Synchronization

1. The cooperation hereunder involves Party A's product operation and backstage security strategies. Party A owns the operation and management power over Official Platform Data and Contents, and the provision, use and strategic adjustment of such data and contents shall be subject to the confirmation of Party A. Party B shall cooperate with Party A in real-time synchronization as notified by Party A (including but not limited to government supervision requirements, and complaint handling), and make sure the Official Platform Data and Contents strategies are at all times consistent with those of Party A. Any content confirmed by Party A to be deleted shall be synchronized by Party B at the same time and kept from exhibition in any way (including snapshot). In addition, Party B shall inform Party A of its strategies in real time.
2. The parties shall establish a security strategy coordination mechanism, and determine security strategies for official account data and contents according to requirements of Party A.

IX. Complaint & Crisis Management

1. Each party shall take responsibility for and clarify system failure or information delay caused by its own reasons. In the event of information transmission delay caused by basic communication platforms of operators, or business breakdown or service cessation caused by change of state laws, regulations, policies or adjustment of operators' policies, which give rise to consumer complaint against Party A, or business breakdown or service cessation caused by technical failure in the process of information transmission, change of state laws, regulations, policies or adjustment of operators' policies, either party shall immediately inform the other party so that the parties can handle the same together.
2. Party A has the right to deal with Official Platform Data and Contents that involve violation of state laws or regulations or infringe upon legitimate rights and interests of others according to government requirements, user complaint and other reasons and to timely inform Party B for synchronous handling, to which Party B shall provide active cooperation and assistance as required by Party A and ensure consistent handling strategies and results.
3. Party B shall be responsible for handling and clarification of user complaint, punishment imposed by operators or other investigation by government agencies due to reasons caused by Party B. Party A shall be responsible for handling and clarification of user complaint, punishment imposed by operators or other investigation by government agencies due to reasons caused by Party A. In addition, each party shall be liable for compensation for the loss incurred therefrom in accordance with the principles above prescribed.

4. Party B shall provide open, explicit and effective complaint handling channels and mechanisms, and shall be responsible for operational liabilities caused by its slackness in handling (within 12 hours after the receipt of a notice from Party A) complaints and other problems.

Chapter V User Privacy Protection

X. User Privacy Protection

1. The parties hereof shall fully respect and protect user privacy security, and shall not disclose nonpublic information of users without the permission of users. Relevant data information shall only be used for Sogou Search Services expressly stipulated herein and shall not be used for any other purposes.
2. Party B shall ensure that privacy protection systems and procedures which are as robust as those of Party A shall be developed in respect of the use of relevant information, so as to ensure that the user privacy information can be effectively protected.

Chapter VI Intellectual Property Protection

XI. Intellectual Property Protection

1. Neither party may use any trademark and logo owned by the other party during the cooperation in this Agreement for any purpose other than those in this Agreement; other use for the purpose of this Agreement other than for the explicit cooperation hereunder must be subject to the prior consent of the right owner.
2. Party B shall use the intellectual property logo and relevant information of the relevant data information for the cooperation hereunder and in compliance with relevant laws and regulations and agreement between the parties, and shall not modify, shield, delete or otherwise change or un-exhibit relevant logos at will.
3. If either party discovers that any third party infringes the intellectual properties or other lawful rights and interests of the cooperation products, it shall promptly notify the other party, and take measures to claim against the infringer.
4. Party A shall own the intellectual properties of Weixin Public Platform and related functions, contents and names according to law. In any case, the intellectual properties owned by Party A shall not be transferred in any form. Any intellectual property of the contents generated from the use of Weixin Public Platform services by a user shall belong to such user or relevant right owner, and Party B shall not infringe the legitimate intellectual properties of the user or relevant right owner.
5. The Parties and their staff undertake that they shall not disparage or otherwise damage the trademark, company name and domain name owned by the other party, nor disparage, copy, distort, destroy or otherwise damage the internet webpage or website of the other party.
6. This Article shall survive the termination of the term of this Agreement or termination of relevant agreements.

XII. General Obligations.

1. The commercial, marketing, technical, business or other material of either party (“Disclosing Party”) that has been or will be disclosed to the other party (“Receiving Party”) before the date of this Agreement and during the term of this Agreement was either designated as confidential information (or similar mark) at the time of disclosure, or disclosed in a confidential circumstance, or commercially reasonably determined by the parties to be confidential information (“Confidential Information”). During the term of this Agreement and three (3) years thereafter, the Receiving Party must: (A) keep Confidential Information confidential; (B) not use Confidential Information for purposes other than the purposes specified in this Agreement; and (C) not disclose to any other person other than employees of such party (or employees of its affiliates, lawyer, accountant or other consultants) on a need-to-know basis for the performance of their duties; provided that the above person shall sign a written confidentiality agreement in which the degree of confidentiality obligation shall not be lower than that of this Article.
2. The obligation stipulated in the preceding Article does not apply to the following information: (A) information that is in the public domain at the time of disclosure or becomes part of the public domain after disclosure, other than as a result of the breach of the confidentiality obligation by the Receiving Party; (B) information that is in the possession of the Receiving Party at the time of disclosure and to which the Receiving Party bears no confidentiality obligation; (C) information obtained by the Receiving Party from a source other than the Disclosing Party through no breach of this Agreement; (D) information provided by the Disclosing Party to a third party without being subject to any confidentiality obligation; or (E) information independently developed by the Receiving Party without using any information disclosed by the Disclosing Party.
3. Upon expiration or termination of this Agreement, or upon request of the Disclosing Party at any time, the Receiving Party shall: (A) return to the other party (or destroy, upon request of the other party) all materials and data containing Confidential Information of the other party, and (B) within ten (10) days after request of the other party, assure to the other party in writing that the above materials have been returned or destroyed.

XII. Disclosure of Trade Secret

The disclosure of any Trade Secret by either party under any of the following circumstances shall not be deemed as a breach of this Agreement:

Such information is disclosed with the prior written consent of the other party, and disclosed by a party according to the requirement of law to which it is subject, provided that the disclosing party shall inform the other party in writing in advance of the exact nature of the Trade Secret to be disclosed.

XIII. Publicity and Statement

Any intended publicity of any press release, announcement, statement or advertisement of any event in connection with this Agreement or arising from this Agreement (including but not limited to the cooperation relationship between the parties) or promotion of such event shall be submitted to the other party for review and shall be subject to the prior written consent of the other party, but the other party shall not unreasonably withhold or delay such consent. Notwithstanding the foregoing provisions, either party may: (A) subject to the compliance with confidentiality provisions, disclose this Agreement and relevant contents to its shareholders, directors, officers, employees, lawyers, accountants and other professionals, or (B) disclose this Agreement and relevant contents according to the requirements of the securities laws or other relevant laws of its jurisdiction.

Chapter VIII Breach of the Agreement

XV. Liability for Breach of Contract

1. Either party which breaches any obligation stipulated herein shall bear liability for breach of contract, and indemnify the other party for all losses suffered by the other party therefrom.
2. If both parties have fault, the parties shall respectively bear their own liability according to the degree of their respective fault for breach of contract.
3. If Party B breaches this Agreement, Party A shall be entitled to require Party B to modify, rectify, adjust or cease its products or services, and shall be entitled to suspend or terminate the call and push of data content on public platform according to the degree of breach until termination of the cooperation hereunder.
4. If Party B uses any data on public platform in violation of laws and regulations or this Agreement, which causes any loss to a third party, Party B shall promptly clarify and apologize on public media with nationwide influence, and indemnify such third party for the losses suffered by it; where Party B fails to perform this Article, Party A shall be entitled to claim against Party B all expenses incurred by Party A for the settlement, litigation, mediation, arbitration and other dispute resolutions, such as attorney fee, investigation expenses, court costs, arbitration expenses, damages, and compensations.

Chapter IX Taxation

XIV. General Requirements

Either party shall pay its own taxes according to the provisions of Chinese Law.

Chapter X Term and Termination

XVII. Term

This Agreement shall come into force after being affixed stamps by the parties and the expiration date of this Agreement shall be February 28, 2019. The parties have the intention of long-term cooperation, and after the expiration of this Agreement Party B has the right to renew this Agreement under the same conditions.

XVIII. Termination

This Agreement shall be immediately terminated upon the occurrence of any of the following circumstance:

1. Either party declares bankruptcy or enters into procedures for liquidation or dissolution.
2. If either party breaches this Agreement, which causes this Agreement to be unable to be performed continually, or the continued performance cannot achieve the purpose of this Agreement, or such breach has infringed the lawful rights and interests of the other party, the other party shall give a 5 working days' prior written notice to such party to terminate this Agreement; otherwise, either party may reserve the right of recourse.
3. In case of new provisions, the parties may sign a supplementary agreement through friendly negotiation, which shall have equal legal effect with this Agreement.
4. If, during the term of this Agreement, the conclusion or performance basis of this Agreement is fundamentally changed due to the issuance of new rules under state laws, regulations, relevant state departments and telecom operators or the change of policy environment, either party may notify the other party to modify the original agreement through negotiation. If the negotiation fails, either party may terminate this Agreement by giving a 5 working days' prior written notice to the other party, and shall not bear any liability.

XIX. Matters after Termination

1. The termination of this Agreement shall not affect the outstanding settlement hereunder or the payment obligation and other obligations or rights of either party accrued before the termination.
2. Notwithstanding the termination of this Agreement, Chapter V and the obligations stipulated therein shall continue to have binding force upon the parties.
3. Upon termination of this Agreement, Party B shall cease acquiring data and content from Party A's public platform within the period required by Party A, and delete existing contents according to the requirement of Party A.

Chapter XI Governing Law and Dispute Resolution

XX. Law

The signing, effectiveness, interpretation and enforcement of this Agreement and resolution of dispute hereunder shall be governed by the laws of the People's Republic of China.

XXI. Negotiation and Mediation

Any dispute arising from this Agreement shall be settled through friendly negotiation between the parties; if negotiation fails, either party may file a lawsuit before the People's Court of Nanshan District, Shenzhen at the domicile of Party A.

XXII. Waiver

No failure by a party to exercise or timely exercise any right, power or priority under this Agreement shall operate as a waiver of that right, power or priority, nor shall any single or partial exercise of any right, power or priority prevent the future exercise of any right, power or priority.

XXIII. Modification

This agreement shall not be modified unless by a written agreement signed by the parties.

XXIV. Entire Agreement

This Agreement constitutes the entire agreement between the parties and supersedes all previous discussions, negotiations and agreements.

XXV. Successors

This Agreement shall bind upon and inure to the benefit of the parties and their respective lawful successors and assigns.

XXVI. Force Majeure

1. In case of Force Majeure, the performance of obligations of the parties hereunder will be suspended within the affected scope and duration of Force Majeure. Neither party shall bear any liability therefrom.
2. Either party which claims to suffer Force Majeure shall notify the other party no later than 5 working days after the occurrence of Force Majeure, and subsequently a written certification with respect to Force Majeure confirmed by relevant authorities, and shall minimize the impact of Force Majeure to the extent possible.
3. In case of Force Majeure, the parties shall immediately discuss the problem resolution plans. If Force Majeure lasts for more than thirty (30) days, and has a material adverse impact on the performance of this Agreement, either party may terminate this Agreement.

XXVII. Assignment

Without the prior written consent of the other party, neither party may assign this Agreement or its rights and obligations hereunder to any third party in part or in whole.

XXVIII. Notice

Any notice or other communications sent according to this Agreement shall be in writing (including email), and sent to the following address of the parties (including email address) or other address and/or email address subsequently notified by a party to the other party in writing:

If to Party A:

Address:

Email address:

If to Party B:

Address:

Email address:

XXIX: Miscellaneous

1. This Agreement shall be made in two counterparts in Chinese with each party holding one. Such two counterparts shall have the same legal effect.
2. Any matter not mentioned herein shall be subject to the provisions of Chinese Law.
3. Appendixes hereto are integral part of this Agreement. In case of any conflict between the appendixes and this Agreement, this Agreement shall prevail. Any matter not referred to herein shall be subject to the appendixes hereto and the separate written agreements between the parties.

[Remainder of this page intentionally left blank]

Signed by:

Party A (Seal): Shenzhen Tencent Computer Systems Co., Ltd.

Authorized Representative:

Date:

Party B (Seal): Beijing Sogou Information Service Co., Ltd.

Authorized Representative:

Date:

Amended and Restated
Business Development and Resource Sharing Agreement

This Amended and Restated Business Development and Resource Sharing Agreement (the “**Agreement**”) dated September 25, 2017 is made by and among:

- (1) **Shenzhen Tencent Computer Systems Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address at 5/F-10/F, FIYTA Building, High-tech South 1st Road, Hi-tech Park, Nanshan District, Shenzhen (“**Tencent**”);
- (2) **Sohu.com Limited**, a corporation duly established and valid existing under the laws of Cayman Islands, whose legal address at PO Box 309, Umland House, Grand Cayman, KY 1-1104, Cayman Islands (“**Sohu**”);
- (3) **Sogou Inc.**, a corporation duly established and valid existing under the laws of the Cayman Islands, whose legal address at Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112, Cayman Islands (“**Sogou Inc.**”);
- (4) **Beijing Sogou Technology Development Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address at Room 01, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou China**”);
- (5) **Beijing Sogou Network Technology Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address at Suite 1916, 19/F, Building 4, No. 1 Park Wangzhuang Road, Haidian District, Beijing (“**Sogou Network**”);
- (6) **Beijing Sogou Information Service Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address at Room 02, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou Information**”);
- (7) **Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, whose legal address at 16/F, **Tencent** Building, Kejizhongyi Avenue, Yuehai Street, Nanshan District, Shenzhen, Guangdong Province, China (“**Shi Ji Guang Su**”)

The parties mentioned above shall hereinafter be referred to individually as a “**Party**”, and collectively as the “**Parties**”. In particular, **Sogou Inc.**, **Sogou China**, **Sogou Network**, **Sogou Information** and **Shi Ji Guang Su** (after the **Starting Date** as defined below) are collectively referred to as “**Sogou**”.

To optimize and improve the online search business as well as related products and applications of the Parties, and to make full use of and develop related technology, platforms and user resources of the Parties, in line with the principles of resource sharing, reciprocity and mutual benefit, common development and serving users, the Parties, following friendly discussion, hereby agree to amend and restate the Business Development and Resource Sharing Agreement (the “**Original Agreement**”) signed by the Parties on September 16, 2013 as follows:

Article 1 Long-term business partnership

1.1 The Parties agree that, from September 16, 2013 (“**Starting Date**”) to September 15, 2018, **Tencent** and **Sogou** shall provide business support in the following areas:

- (1) **Tencent** shall make reasonable efforts to provide search traffic to **Sogou** according to the following programs (such programs may be revised from time to time by the **Parties** in the form of written agreements):
 - i. Cooperation in respect of enhancing PC search traffic
 - a) Provided that it will not affect user experience and product demand, **Tencent** shall make reasonable commercial efforts to maintain search traffic provided to SOSO before the **Starting Date**.
 - b) Provided that it will not affect user experience and product demand, query recommended module will be placed on the appropriate sites of www.qq.com, and the corresponding search service provided by **Sogou** will be used in priority.
 - c) **Tencent** plans to increase the market share of QQ Directory through guiding in locking default Directory Page of the browser and other means, and QQ directory’s internal search service provided by **Sogou** shall be adopted in priority.
 - d) Based on the principle of maximizing efficiency, **Tencent** plans to significantly increase the market share of QQ browser and **Sogou** browser through download promotion, and QQ Directory’s internal search service provided by **Sogou** shall be adopted in priority.

- ii. Cooperation in respect of enhancing wireless search traffic
 - a) Provided that it will maintain user experience and product demand, **Tencent** shall make reasonable commercial efforts to maintain search traffic provided to mobile phone SOSO before the **Starting Date**.
 - b) **Tencent** will use search service provided by **Sogou** in priority in QQ mobile phone browser.
 - c) Provided that it will maintain user experience and product demand, if it plans to place generic search function in relevant product or conduct the optimization and thematic operation of recommended search, **Tencent** shall use and optimize in priority the search service of **Sogou** in manners including but not limited to: optimization and thematic operation of recommended search, mobile phone QQ's built-in search service, Weixin's built-in search service, **Tencent** news and other mobile applications' built-in search services, search services on ROM, desktop, wallpaper and lock screen as well as search services of finger search.
- (2) **Tencent** shall maintain and continuously increase the relevant data and service that it provides to SOSO business before the **Starting Date**, and shall make reasonable efforts to provide data support to **Sogou** according to the following programs (such programs may be revised from time to time by the **Parties** in the form of written agreements):
 - i. **Tencent** map plans to open generic API interface for data services, and make reasonable commercial efforts to meet the following objectives:
 - a) **Tencent** map will maintain and optimize the data provided to SOSO before the **Starting Date**, and also provide said data to **Sogou**;
 - b) **Tencent** map must provide data to ensure that the map results searched by **Sogou** web page have the same quality as that of the map results searched by SOSO web page before the **Starting Date**.

Tencent reserves the ownership of the map data, which are only for API-based deployment and use by **Sogou**.

- ii. **Tencent** needs to maintain and optimize the data and services provided to SOSO, and also provide said data and services to **Sogou**.
- (3) **Tencent** will use reasonable efforts to promote PC terminal and mobile terminal products owned or in part operated by **Sogou** (including but not limited to **Sogou** Input, **Sogou** browser, etc.) according to the following programs (such programs may be revised from time to time by the Parties in the form of written agreements):
- i. Promotion and cooperation in respect of **Sogou** PC input method
 - a) Provided that it will maintain user experience and product demand, **Tencent** will explore a reasonable and natural way based on enhancing user experience to promote **Sogou** Input Method and use **Sogou** Input Method as the default scene input method for QQ chat.
 - ii. Cooperation in respect of **Sogou** mobile input method and other **Sogou** mobile products
 - a) During pre-installed cooperation with mobile phone manufacturers, **Tencent** makes reasonable commercial efforts to promote **Sogou** mobile phone input method.
 - b) Provided that it will maintain user experience and product demand, **Tencent** promotes **Sogou** mobile products with the treatment for similar **Tencent** products on each of its application distribution platforms, including **Sogou** mobile phone input method, **Sogou** Haomatong, **Sogou** map, **Sogou** voice assistant, etc., and said distribution platforms may include but are not limited to: mobile QQ, QQ mobile browser, myapp.com, mobile phone housekeeper and so on.
 - c) At mobile phone QQ and Wexin chat window and during chat process, **Tencent** activates non-active users of **Sogou** mobile phone input method based on the principle of enhancing user experience, and the specific implementation needs shall be otherwise determined through consultation based on specific product demand, and may include strong association user scene taking **Sogou** Input Method as a “default scenario input method”. This cooperation may activate existing users of **Sogou** mobile phone input method, but it does not bring the increase in downloads.

- (4) **Tencent** will, to the extent possible, provide to **Sogou** the same open service support it provides to **Tencent** products;
- (5) In correspondence with the search traffic provided by **Tencent** to **Sogou**, **Sogou** will make its reasonable efforts to develop the following applicable special functions for **Tencent** in the “**Sogou** Input Method” and “**Sogou** Mobile Phone Input Method ” under the premise of maintaining user experience and product demands:
 - a) To develop expression symbols input for **Tencent** “QQ”, mobile phone “QQ”, “Wexin” and other chat software; and
 - b) To develop game lexicon related to **Tencent** games.
- (6) To pre-set QZone entry as default setting on the start page of “my favourite” in the **Sogou** browser;
- (7) To make reasonable efforts to provide the “**Sogou** Haomatong” number identification database for “**Tencent** Mobile Phone housekeeper”, “QQ address book” and other mobile phone management software provided that it will not violate any applicable laws or the agreements executed between **Sogou** and the relevant users;
- (8) To make its reasonable efforts to provide the appropriate advertisement space in the “**Sogou** Mobile Phone Assistant” to promote the mobile App and mobile game products of **Tencent** provided that it will not cause conflicts with the **Sogou**’s own App and any other APP of **Sohu**;
- (9) In correspondence with the search traffic provided by **Tencent** to **Sogou**, **Sogou** will provide the relevant search service upon the request to be sent by **Tencent** matrix search box;
- (10) To utilize the resources of “**Sogou** Search” and “Network Alliance” to promote the products designated by **Tencent** without compromising legal compliance and without prejudice to **Sogou** user normal business promotion;

(11) **Sogou** will, according to the following mode, establish promotion link for the channel specified by **Tencent** on the site directory website (123.**Sogou.com**) without compromising legal compliance and without prejudice to **Sogou** user experience:

Available resources	Location	Promotable Tencent Products
<u>Text link of famous-site directory</u>	/	Tencent QZone
<u>Text link of cool-site directory</u>	Video Category News Category Sports Category Finance and Economics Category Group Purchase Category Mailbox Category Community Category Automobile Category	Tencent Video Tencent News Tencent Sports Tencent Finance and Economics Gaopeng Group Purchase QQ Mailbox QQ QZone Tencent Automobile

Available resources	Location	Promotable Tencent Products
<u>News Channel</u> <u>Sogou film and TV</u>	Computer Category Mobile Phone Category Information module on the left of first page, and inside page of news channel All channels of Sogou Video	Tencent Digital Tencent Mobile Phone Tencent News Tencent Video

Article 2 PC Browser Business and Tencent Directory Pages

- 2.1 During a period of twenty (20) years from the **Starting Date**, the default search tool on PC browser directory page (daohang.qq.com) and QQ directory page (hao.qq.com) of **Tencent** (collectively "**Directory Pages**") will be set as **Sogou**'s search tool, and **Tencent** agrees that **Sogou** has rights to comprehensively operate and commercialize the Directory Pages separately (including but not limited to determine product planning, page design, content operation and commercial resources development / utilization of the Directory Pages), and the operating income therefrom shall be solely attributed to **Sogou**. Accordingly, **Sogou** shall bear the costs and expenses incurred from the overall operation and commercialization of the Directory Pages.
- 2.2 During the process of overall operation and commercialization of the Directory Pages, **Sogou** shall make best efforts to guarantee that (a) the contents on the **Tencent** Directory Pages and the websites recommended by or linked to the Directory Pages are free from any content violating laws and regulations, or it shall promptly take effective measures to remove such contents (if found), (b) content operation, page design, display impression and user experience of the Directory Pages shall, in principle, meet the requirements in respect of overall operation and style of **Tencent** website and PC browser, and (c) there is no other operation behaviour materially violating laws and regulations or damaging the brand image and reputation of **Tencent**. Once any circumstance violating above requirements is found in the process of overall operation and commercialization of the Directory Pages by **Sogou** (except such circumstance is caused by **Tencent** itself), **Tencent** may require **Sogou** to correct immediately, and **Sogou** shall compensate the actual loss and damages incurred by **Tencent** due to such circumstance.

- 2.3 During the process of the overall operation and commercialization of the Directory Pages, according to the requirements of **Tencent**, **Sogou** shall retain on the Directory Pages such number of links not less than the current number of website links under **Tencent** for free use by **Tencent** or its designated affiliated company. For other commercialized links, the charging method and condition thereof shall be the same as those of **Sohu** (as defined in Article 4.2).

Article 3 Strategic Principles of Business Development and Resource Sharing

- 3.1 **Tencent** and **Sohu** agree that, within five (5) years from the **Starting Date**, if it sets any default general search tool in its products in the form of embedment or otherwise (different from on-site/in-product search tools), such default general search tool shall be the search tool provided by **Sogou**. To clarify this intention, **Tencent** and **Sohu** will not deprive users of their rights of choosing, at their discretion, search product services that compete with **Sogou**. For the purposes of this Article, general search tool means a search tool whose search contents are from public information on various Internet websites that is available to third-party "Spider" program or from open database on various Internet websites; on-site/in-product search tool means a search tool that only extracts information within the website or products (including public or non-public information) to retrieve and return results. The Parties are intended to extend the cooperation under this Article 3.1 by five (5) years, provided it does not harm the user experience.

Article 4 Early Termination

- 4.1 Where any of the following circumstances occurs, **Tencent** shall be entitled to immediately terminate this Agreement by a written notice to the other Parties:
- (1) If (a) **Sogou Inc.** directly or indirectly issues or sells any stock or **Equity Interest** to any **Restricted Person**, or (b) if **Sohu** directly or indirectly issues or sells any stock or **Equity Interest** of **Sogou Inc.** to any **Restricted Person**;
- notwithstanding the foregoing, **Sogou Inc.** and **Sohu** shall sell **Sogou Inc.**'s shares or **Equity Interests** through open market transactions after **Sogou Inc.** has been listed in United States, provided that the sale is conducted through open market transactions and the seller, the underwriter or broker (as the case may be) does not specifically arrange for the distribution or sale of shares or **Equity Interests** to any **Restricted Person**; and, in the event that a **Restricted Person** purchases **Sogou Inc.**'s shares or **Equity Interests** through an open market transaction, the purchase shall not be deemed as a termination event as long as **Sohu** or **Sogou Inc.** does not, in any way, provide any assistance for the transaction; or

(2) Where **Sohu** has a change of Control, and the person that acquires Control of **Sohu** is one or more **Restricted Person**.

4.2 Relevant definitions are as follows:

- (1) “**Sohu**” means Sohu.com (Search) Limited, Sohu.com Inc. and any other Sohu.com Inc. through which Sohu.com Inc. obtains Control over Sohu.com (Search) Limited;
- (2) “**Equity Interests**” mean, with respect to any person, such person’s equity capital, membership interests, partnership interests, registered capital, joint venture or other form of title interest or any stocks, stock certificates, options, warrants, or other securities that can be directly or indirectly converted into or otherwise be obtained after exercise or exchangeable for such equity capital, membership interests, registered capital, joint venture or other form of title interest (whether or not such derivative securities are issued by the person);
- (3) “**Restricted Person**” means any person and any of its **Affiliated Companies** that has been confirmed by **Parties** in writing from time to time;
- (4) “**Affiliated Companies**” mean (i) in the case of a person other than a natural person, any other person who, directly or indirectly, Controls such person, is Controlled by such person or under common Control with such person, and (ii) in the case of a natural person, any person who is directly or indirectly Controlled by such person, or Relatives of such person. “**Relatives**” mean a natural person’s spouse, parents, grandparents, children, grandchildren, siblings, the siblings of such person’s parents, the children of such person’s siblings, the great-grandparents or the spouses of the foregoing (if any);
- (5) “**Change of Control**” of a person means the circumstance under which such person is merged or consolidated with any other person or such person is merged or consolidated into any other person or after such person’s equity interest is acquired, the person Controlling such person shall immediately no longer have any direct or indirect Control over such person;

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

Article 5 Confidentiality

- 5.1 General obligations. Each Party undertakes to the other Parties that, without the prior written consent of the Party concerned (as the case may be), it will not and will procure its directors, equity holders, management, employees, agents or affiliates (collectively referred to as “**Representatives**”) not to disclose any Confidential Information to any third party, or use the Confidential Information in a way detrimental to the Party concerned (as the case may be). For purposes of this Article 6, the term “Confidential Information” refers to (a) information concerning the formation, operation, technology, intellectual property, safety records, investment, finance, transactions or other affairs of any Party, or information concerning the directors, management or employees of the Party (whether such information is transmitted in oral, written or other forms, and whether provided on, before or after the Starting Date); (b) provisions of this Agreement, the identity of the Parties and their respective affiliates; and (c) any other information prepared by any Party or any Representative that contains or otherwise reflects or is generated or derived from the information specified in item (a) above.
- 5.2 Exceptions. Article 5.1 of this Agreement shall not apply to:
- (a) Disclosure of Confidential Information that is or becomes generally available to the public through no breach of this Agreement by any Party or any Representative;
 - (b) Disclosure made by a Party to its Representative or certain affiliate who need to know such information for performance of its obligations or exercise of its rights hereunder, provided that such Representative or affiliate (i) is subject to similar confidentiality obligations, or (ii) is subject to other binding professional confidentiality obligations; or

- (c) Disclosure required by rules of any stock exchange in which the shares of any Party or its parent company are listed or applicable legal, judicial or regulatory proceedings, or disclosure relating to any legal action, litigation or proceeding arising from or in connection with this Agreement, provided that the Parties concerned (as the case may be) shall be informed in advance to the extent feasible and any possible arrangement shall be made for confidential treatment.
- 5.3 Publicity. Each Party shall not, and each Party shall procure its management, employees, agents, affiliates, and the management, employees and agents of such affiliates not to, release any public announcement or make any remark on this Agreement or matters contemplated under this Agreement without consultation with, and written consent from, the Party concerned (as the case may be), unless required by laws or stock exchange rules, made pursuant to a court order, requested by the stock exchange on which the shares of such Party or its affiliate are listed, or required by any governmental or regulatory agency.

Article 6 Notice

- 6.1 Any and all notices among the Parties shall be written in Chinese and sent by personal delivery, registered airmail, fax or email to the following addresses:

If to Tencent:

Tencent Building, Kejizhongyi Avenue, High and New Technology Park, Nanshan District, Shenzhen

Postal code: 518057

Recipient: Compliance Transaction Department

Email: legalnotice@tencent.com

With a copy to:

Tencent Building, Kejizhongyi Avenue, High and New Technology Park, Nanshan District, Shenzhen

Postal code: 518057

Recipient: Investment & Merger Department

Email: PD_Support@tencent.com

If to Sogou Inc.:

Sogou Inc.

Floor 4, Willow House, Cricket Square, P O Box 2804, Grand Cayman KY1-1112 , Cayman Islands

With a copy to **Sogou Information** as follows:

If to Sogou China, Sogou Network, Sogou Information or Shi Ji Guang Su:

Recipient: Zhou Yi

Email: yizhou@sohu-inc.com

Tel: 62728526

Address: SOHU.com Internet Plaza, Zhongguancun East Road No.1 Park, Beijing

Postal code: 100084

If to Sohu:

Sohu.com Inc.

PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands

With a copy to:

Recipient: Pang Xiaomei

Email: xiaomeipang@sohu-inc.com

Tel: 62726169

Address: SOHU.com Media Plaza, Building No. 3, No. 2 Park Kexueyuan South Road, Beijing

Postal code: 100190

6.2 Any notice shall be deemed to have been served:

- (1) on the date of delivery if sent by personal delivery;
- (2) seven (7) days from the date of posting (as evidenced by postmark) if sent by registered airmail;
- (3) on the first working day after the date of transmission if sent by facsimile or telegraph;
- (4) on the date on which the email reaches the server of the recipient if sent by email.

6.3 Any Party may change its address for notice at any time by delivering a written notice to all other Parties in accordance with this Article 6.

Article 7 Miscellaneous

- 7.1 Effectiveness. This Agreement is sealed or signed by and among the Parties and shall become effective on the day and year first written above. This Agreement is an amendment and restatement of the Original Agreement and shall supersede the Original Agreement. The Original Agreement shall automatically be terminated at the same time as this Agreement becomes effective.
- 7.2 Modification. Unless otherwise expressly provided herein, no modification, alteration or supplementary to this Agreement shall be effective unless made in writing and signed by each of the Parties. This Agreement will not affect any relationship existing among the Parties (if any) by contract or otherwise.
- 7.3 Binding Force; Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their successors and permitted assigners. None of the Parties may assign this Agreement without the prior written consent of all other Parties.

- 7.4 Governing Law; Dispute Resolution. The Parties explicitly acknowledge that, this Agreement and any dispute, controversy or claim arising from or in any way related to this Agreement or behaviors of the Parties hereto shall be governed by the laws of the PRC. Any such dispute, controversy or claim shall be settled through friendly negotiation among the Parties; if such negotiation fails, any Party may submit the dispute to Shanghai Arbitration Commission for arbitration in Shanghai in accordance with its arbitration rules then in force. The arbitration award shall be final and binding upon all Parties.
- 7.5 No Waiver. No failure of a Party to exercise any right, power or benefit under this Agreement shall operate as a waiver of that right, power or benefit, nor shall any single or partial exercise of any right, power or benefit prevent the exercise of any other right, power or benefit.
- 7.6 Severability. If one or more provisions of this Agreement are held to be invalid or unenforceable, the remaining provisions of this Agreement shall remain in force.
- 7.7 Force Majeure. If the performance of this Agreement is delayed, hindered or made impractical due to any reason beyond the reasonable Control of the affected party, including but not limited to natural disaster, war, riot, insurrection, embargo or other government restrictions (except unfavorable economic conditions, exchange rate fluctuations or insolvency) (each a “Force Majeure Event”), the obligations of the Parties hereto shall be deemed to have been suspended without giving rise to any liability for damage. The Party affected shall promptly inform the other Parties of the nature and scope of any actual or anticipated Force Majeure Event, and shall take all reasonable steps to mitigate the impact of the Force Majeure Event.
- 7.8 Relationship of the Parties; Independent Contractor. Nothing in this Agreement is intended to, or shall be deemed to, make any Party a legal representative or agent of any other Party; none of the Parties have the right or authority to incur any responsibility or obligation in the name of or on behalf of any other Party.
- 7.9 Liability for Breach of Contract. If any Party fails to properly perform any of its obligations hereunder, the non-breaching party shall be entitled to notify the breaching party to rectify such breach and perform its due obligations within a reasonable period of time. If the breaching party fails to rectify its breach within the prescribed period of time, the non-breaching party shall be entitled to seek any possible remedy according to applicable laws, including but not limited to claiming for compensation.

- 7.10 Taxes and Fees. Unless otherwise provided in this Agreement, each Party shall bear and pay its own taxes and fees incurred hereunder, including but not limited to taxes, legal fees, accounting fees and other type of fees.
- 7.11 Headings. The clause headings in this Agreement have been inserted for convenience only and shall not constitute a part of this Agreement.
- 7.12 Counterparts. This Agreement may be executed in any number of counterparts, each of which when executed and delivered shall constitute an original, but all the counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the **Parties** hereto have caused this **Agreement** to be executed by their respective duly authorized representatives on the date and year first written above.

Shenzhen Tencent Computer Systems Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Sohu.com Limited

(Seal)

Signature: _____

Name:

Title:

Sogou Inc.

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Technology Development Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Network Technology Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Information Service Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

SOHU.COM Internet Plaza Office Building Lease

Between

Beijing Sohu New Media Information Technology Co., Ltd.

and

Beijing Sogou Network Technology Co., Ltd.

Lease

Parties: Lessor: Beijing Sohu New Media Information Technology Co., Ltd.
Address: SOHU.com Media Plaza, No. 2 Park, No. 3
Building, South Road of Academy of Sciences,
Haidian District, Beijing, China
Legal representative: Charles Zhang
Tel:
Fax:

Lessee: Beijing Sogou Network Technology Co., Ltd.
Address: SOHU.com Internet Plaza, No.1 Park,
Zhongguancun East Road, Haidian District,
Beijing, P.R.C.
Legal representative: Wang Xiaochuan
Tel:
Fax:

Date: The Lease was concluded on [December 30, 2016].
The parties hereby enter into the following agreement:

Article 1 Definitions

Object: The Lessor agrees to lease out and the Lessee agrees to take on lease the premises (actual floors) located at 8F Room 02, 9F, 11F, 12F and 13F, SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C., that is, 8F, 9F, 11F, 12F and 15F as elevator shows.

As a duly established and validly existing corporation, the Lessor has the authority to enter into the Lease and to perform its obligations hereunder. In addition, the Lessor has full ownership of the Object leased, and has obtained all internal and external approval or registration and filings necessary for the performance of the Lease, consenting to the lease of the Object to the Lessee.

As a duly established and validly existing corporation, the Lessee has the authority to enter into the Lease and to perform its obligations hereunder. The Lessee agrees to take on lease and enjoys the following rights pursuant to the Lease:

- (i) To normally use public inlets and outlets, stairs, platforms, passageways, public restrooms, tea rooms, broom closets, etc. of the building together with the Lessor and other parties enjoying the same rights, provided that, the Lessor may restrict such right to use in a proper way at any time when the above facilities need to be repaired or upon the occurrence of emergency;

(ii) To share the elevators, central air-conditioning and other equipment serving the office building.

Tenancy term and rent: The tenancy term is more particularly set forth in Article 3 (“Tenancy Term”). The Lessee shall pay the rent and property management fees as specified in Article 4 hereof within the Tenancy Term in a way specified in Article 6.

Deposit: The Lessee shall pay the deposit as specified in Article 5 hereof simultaneously with the execution of the Lease in a way specified in Article 6.

Other expenses: The Lessee shall timely pay the following expenses as per the bills provided by the property management company designated by the Lessor, including but not limited to: Electricity charges and water rates, over time air conditioning costs, machine room cooling water rates, etc. incurred in the Object. For specific payment methods, please refer to Article 6 hereof.

Legal expenses: The parties shall respectively bear their legal expenses.

Application: The Object leased may only be used by the Lessee for work.

Date of delivery: January 1, 2017.

Article 2 Object

Building No.: SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C. (hereinafter referred to as the “Office Building”)

Floor No.: 8F Room 02, 9F, 11F, 12F and 13F (actual floors) of the Office Building, that is, 8F, 9F, 11F, 12F and 15F as elevator shows.

Lease area: 8F Room 02, 9F, 11F, 12F and 13F (actual floors) of the Office Building, that is, 8F, 9F, 11F, 12F and 15F as elevator shows, having a total lease area of 11015.37 square meters.

For the specific location, please refer to Annex I.

For delivery standards, please refer to Annex II.

Article 3

Tenancy Term

Term: 36 months

Lease commencement date: January 1, 2017

Termination date: December 31, 2019

(The term includes lease commencement date and termination date)

Article 4

Rent and Property Management Fees

(1) Rent

In consideration of using the Object leased, the Lessee shall pay the following rent:

Rent standard: RMB 264.62/month/m²

Monthly rent: RMB 2,914,887.21

(Calculated based on the lease area specified in Article 2 above at the unit price of RMB264.62/month/m², to be settled in Renminbi)

(2) Property management fees

Subject to the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into by and between the Lessee and the property management company designated by the Lessor.

Article 5

Deposit

The deposit for rent will be RMB 8,744,661.63 (equivalent to three months of rent). Since RMB6,441,000.00 of deposit has been paid under the original contracts No. 13-GNL-03207 and No. 15-ES-00091, the Lessee needs to hand in RMB 2,303,661.63 of deposit hereunder.

The deposit will bear no interest.

Upon the extinguishment or termination of the Lease, the remaining amount after the Lessor deducts unpaid rent, other expenses and other deductible expenses payable by the Lessee shall be returned to the Lessee.

Article 6

Payment of Rent, Property Management Fees and Other Expenses

- (1) The rent and property management fees include neither electricity charges and water rates, rent and management fees of parking space leased, over time air conditioning costs, machine room cooling water rates, etc. of the Object leased, nor all government taxes and other expenses payable by the Lessee according to laws or regulations.

During the Tenancy Term, the rent shall be paid by calendar month. In particular, the Lessee shall pay the rent for the next month in advance within the first twenty days of each calendar month without any deduction.

The Lessee shall prepay RMB 2,914,887.21 of rent simultaneously with the execution of the Lease (rent for one month; if the Tenancy Term begins not on the first day of a calendar month, proportional rent shall be prepaid according to the number of days from the commencement date to the last day of the calendar month at the time of execution.)

The rent for the last month during the Tenancy Term shall be calculated based on the number of days remaining in the month.

- (2) Within five working days after the Lease is executed, the Lessee shall pay the deposit to the Lessor in the amount prescribed in Article 5 hereof.
- (3) The Lessee shall pay other expenses then incurred in accordance with the provisions of the Lease, the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into with the property management company designated by the Lessor, and the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* formulated and updated from time to time by the Lessor or the property management company.
- (4) The rent and deposit for the Object leased shall be paid to the following account of the Lessor:
Bank of deposit: China Merchants Bank Co., Ltd., Beijing North Third Ring Branch
Account name: Beijing Sohu New Media Information Technology Co., Ltd.
Account number: 862281851810001
Bank No.: 846
- (5) The Lessor shall issue vouchers to the Lessee at the following time in the following way:
The Lessor shall issue a receipt within five working days after the receipt of deposit paid by the Lessee;
Regarding the rent paid by the Lessee by check, remittance or any other means designated by the Lessor, the Lessor shall issue a formal invoice within five working days after the related funds reach the bank account designated by the Lessor.

Article 7

Fixtures and Fittings

The Lessor will provide certain fixtures and fittings for the interior of the Object leased according to Annex II hereto—*SOHU.COM Internet Plaza Office Building Delivery Standards* (subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor), the Lessee shall return such fixtures and fittings in the same shape, conditions and structure as previously delivered upon the termination of the Lease. The initial delivery status shall be subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor.

Article 8

Special Terms

(1) Reception of the Object leased

The date of delivery will be . The Lessor shall deliver the Object leased to the Lessee in accordance with the delivery conditions prescribed in Annex II hereto and the confirmation document signed by the Lessee and the property management company designated by the Lessor on the delivery date. As the Lessee is already the actual occupier and user of the premises leased, the delivery date will be the lease commencement date, that is to say, the Tenancy Term will commence as from the delivery date. Simultaneously with the execution of the Lease, the Lessee shall enter into a *SOHU.COM Internet Plaza Office Building Property Services Agreement* with the property management company designated by the Lessor (subject to the name of the agreement finalized).

(2) Decoration

During the Tenancy Term, the Lessee may carry out interior decoration in the Object leased with the prior consent of the Lessor after entering into a Leased Premise Decoration Security Agreement (subject to the name of the agreement finalized) with the Lessor or the property management company designated by the Lessor.

(3) Government registration, taxes and other incidental expenses

The Lessor shall go through related registration formalities for the premises leased according to law, to which the Lessee shall offer assistance.

All taxes and dues in connection with the execution, registration and implementation of the Lease shall be governed by the applicable laws and regulations of China (excluding Hong Kong, Macao and Taiwan). In the absence of explicit provisions in Chinese laws and regulations, the taxes and dues shall be respectively borne by the Lessor and the Lessee on their own.

(4) Status of the Object leased

The Lessor has delivered the Object leased to the Lessee in accordance with the standards set forth in Annex II. The Lessee has received the Object according to such standards and confirmed the Object leased to be in good and rentable conditions. Both parties acknowledge that, the Object leased conforms to the provisions of the Lease.

(5) Other agreements and covenants

The Lessee agrees to comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract* and the *Constitution of SOHU.COM Internet Plaza's Owners Association* signed by the Lessor. If the Lessor violates any of the aforesaid agreements as a result of the Lessee, the Lessee shall compensate the Lessor for its losses.

Article 9 **Confidentiality** During the Tenancy Term, the Lessor, the Lessee and their respective agents shall keep the trade secrets, financial information and other confidential information of the Lessee and the Lessor confidential, and may not disclose such information to any third party without the consent of the other party.

Article 10 **Others** The Lessee agrees that, the Lessor has the right to sell the premises leased to the third party during the Tenancy Term, and the Lessee promises to waive its right of preemption.

This Lease includes certain annexes and the *Detailed Rules for Office Building Lease*.

Beijing Sohu New Media Information Technology Co., Ltd.

Signature of representative:

Common seal:

Beijing Sogou Network Technology Co., Ltd.

Signature of representative:

Common seal:

(No text on this page, this being the seal and signature page to the SOHU.COM Internet Plaza Office Building Lease)

Signed on: December 30, 2016

Annexes to the Lease

Annex I: Location Sketch Map

Annex II: SOHU.COM Internet Plaza Office Building Delivery Standards

Annex III: Photocopy of the Lessor's Business License and Original Power of Attorney

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Detailed Rules
for
Office Building Lease

Between
Beijing Sohu New Media Information Technology Co., Ltd.
and
Beijing Sogou Network Technology Co., Ltd.

I. Rent, Property Management Fees and Other Expenses

The Lessee agrees to accept and perform the following:

(1) Rent and property management fees

To timely pay the rent and property management fees prescribed in Article 4.

(2) Commercial taxes

To pay the taxes or dues payable by the Lessee as prescribed by laws and regulations annually or regularly imposed by the competent department on the Object leased or the Lessee at present or in the future, except the land use fees and house property taxes.

(3) Electricity, water and other charges

To pay the charges of electricity and water used in the Object leased.

(4) Other expenses

The Lessee shall pay to the property management company designated by the Lessor: including but not limited to the expenses of machine room cooling water and over time air-conditioning provided by the property management company designated by the Lessor at the request of the Lessee.

II. Obligations of the Lessee

The Lessee agrees to accept and perform the following:

(1) Compliance with regulations, detailed rules and ordinances, etc.

(a) Comply with all regulations, rules and requirements of the government or other relevant departments concerning the Lessee's behaviors and operations in the Object leased, as well as all related regulations, rules and requirements regulating the actions, behaviors, affairs or things of the Lessee or its employees, agents, contractors or visitors. The Lessee shall compensate the Lessor for its losses caused by the Lessee's violation of these regulations, rules and requirements.

(b) The Lessee shall be responsible for all claims, demands, lawsuits, legal proceedings, judgments, losses and related expenditures that the Lessor may suffer or incur as a result of death, personal injuries or property damages occurred in the Object or occurred during the use of the Object or part thereof caused by the act or negligence of Lessee or its employees, contractors, agents or visitors.

(c) The Lessee shall be responsible for all losses and damages to the Object leased, the building and all properties in the building caused by the Lessee or its agents, employees, contractors or visitors.

(2) Decoration, repair and maintenance

(a) Decoration

The Lessee's decoration of the Object leased must comply with the provisions of the *SOHU.COM Internet Plaza Office Building Decoration Manual* (subject to the name of the agreement finalized) formulated and modified from time to time by the property management company designated by the Lessor.

The Lessee shall make sure the decoration and partition of the Object conform to firefighting, security, building or other relevant provisions.

According to the drawings and specifications previously submitted to and approved by the Lessor and the property management company designated by the Lessor in writing, the Lessee shall decorate the interior of the Object at its own expenses.

The interior decoration performed by the Lessee shall be in a good and workmanlike manner and conform to the style of first-class office buildings. The Lessee shall maintain the decoration in the same status during the entire Tenancy Term, except normal wear and tear.

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee must not, by itself or allow to, make any alteration to the approved decoration drawings and specifications as well as the interior design and layout of the Object.

For the avoidance of doubt, the Lessor and the Lessee hereby declare that:

- (i) The Lessor or the property management company designated by the Lessor approving the abovementioned decoration drawings and specifications of the Lessee doesn't exempt the Lessee from applying to the related government authorities of Beijing, at its own cost, for approval of such decoration drawings and specifications already approved by the Lessor or the property management company designated by the Lessor before formally starting interior decorating.
- (ii) The Lessor and the property management company designated by the Lessor shall bear no responsibility for any consequence of the Lessee not complying with the requirements and conditions set forth in the decoration drawings and specifications approved by the related government authorities of Beijing.
- (iii) The Lessee shall keep the Lessor harmless from any loss caused by the Lessee not complying with the present clause, including but not limited to legal expenses.

(b) Repair and maintenance

The Lessee shall keep the part of decorations in the Object provided by the Lessor and the part added by the Lessee (including all doors and windows, walls, equipment and facilities and pipelines, etc.) in good, clean and rentable conditions, and shall keep the Object leased and oil paint on the surface intact.

The Lessor shall be responsible for daily repair and maintenance of decoration (decorative surface, strong current, weak current) and electromechanical system (central ventilation system) provided by the Lessor and access control, provided that the Lessee shall bear the corresponding costs, as more specifically agreed upon by the parties.

The Lessee shall repair and maintain the part of decorations added by itself at its own costs and expenses.

The Lessee shall comply with the regulations of the sanitation and provisions of other relevant government departments concerning dedicated sanitation and water facilities (if any) used by the Lessee or its employees, agents or visitors at its own expenses.

(3) Replacement of windows or glass curtain walls

The Lessee shall pay the expenses incurred by the Lessor or the property management company designated by the Lessor for replacement of windows, glass or glass curtain walls accidentally broken or damaged by the Lessee or its employees, contractors, agents or visitors.

(4) Compensation and insurance of losses and damages caused by internal defects

The Lessee shall take full responsibility for losses, property damages, death or personal injuries caused by the acts, faults or negligence of the Lessee or its employees, contractor, agents or visitors expressly or impliedly permitted by the Lessee. The Lessee shall hold the Lessor harmless therefrom. For purposes of this clause, the term "property" includes but is not limited to fixtures and fittings of the Lessor.

To avoid the above risks, the Lessee shall procure and maintain third-party liability insurance from a domestic insurance company. Such insurance shall be purchased in the name of the Lessee and particularly indicate the Lessor as the owner of the building (including the Object leased). Since the date of lease commencement date, the Lessee shall furnish the Lessor with a certificate issued by the insurance company within three months, evidencing to the Lessor that appropriate insurance has been purchased. Such certificate shall constitute a part of annexes to the contract.

The insurance contract shall contain a clause prescribing that without the prior written consent of the Lessor, the insurance purchased and its conditions may not be cancelled, modified or restricted.

(5) Access of the Lessor or the property management company designated by the Lessor

When the Lessor or the property management company designated by the Lessor needs to examine or check the status of the interior structures, equipment or facilities in the Object leased by the Lessee and carry out necessary repair or maintenance, with prior notice, the Lessee shall allow the Lessor or the property management company designated by the Lessor and their authorized personnel to enter the Object in reasonable time. When exercising such right, the Lessor or the property management company designated by the Lessor shall try not to cause any interference to the Lessee.

In the case of emergency when it becomes impossible to contact the Lessee in advance, the Lessor and its employees or agents may enter the Object without permission of the Lessee to take necessary measures, provided that the Lessee shall be timely reported afterwards; in the case of especially critical circumstances, the Lessor or the property management company designated by the Lessor may force an entrance to the Object.

In order to better comply with the preceding clause, the Lessee shall inform the Lessor or the property management company designated by the Lessor the security system installed in the Object and its nature.

(6) Notice of repair

The Lessee shall conduct the necessary repair in a reasonable time after the receipt of a notice from the Lessor or the property management company designated by the Lessor requiring repair. If the Lessee fails to do so, the Lessor or the property management company designated by the Lessor shall be entitled to enter into the Object, and may forcibly perform the work or repair in emergency circumstances, with all related expenses to be borne by the Lessee.

(7) Informing the Lessor of damage

The Lessee shall timely inform the Lessor and the property management company designated by the Lessor of damage to the Object and personal injuries, and of accidents or defects of water pipes, gas pipes, electric circuits or devices, fixtures or other facilities provided by the Lessor. After the receipt of such a notice, the Lessor or the property management company designated by the Lessor shall respond immediately and perform the repair within three working days. In the instance the Lessee becomes unable to normally use the facilities due to losses caused by the Lessor and response delay of the property management company, the Lessee shall be entitled to engage a third party for repair, with the maintenance costs to be deducted from the rent or other expenses (except repair caused by the Lessee only).

Upon occurrence of fire alarm or other accidents, in addition to calling the police and taking necessary measures immediately, the Lessee shall simultaneously inform the Lessor and the property management company designated by the Lessor.

(8) Directory

When the name on the directory of the building is changed upon the request of the Lessee, the Lessee shall pay the expenses for installation, repair, change or replacement of the Lessee's name on the directory.

(9) Survey

Within six months before the expiration of the Tenancy Term, the Lessee shall allow the Lessor to accompany potential tenants or users to make a survey of the Object in a reasonable time with prior notice, but the Lessor shall try its best to avoid interference with the Lessee's work.

(10) Regulations

The Lessee shall comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract*, the Constitution of SOHU.COM Internet Plaza's Owners Association signed by the Lessor; and shall comply with and abide by the regulations formulated by the Lessor and the property management company designated by the Lessor, including but not limited to the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* (subject to the name of the agreement finalized).

(11) Contractors, employees, agents and visitors

The acts, negligence, omission and fault of all contractors, employees, agents and visitors of the Lessee shall be deemed as those of the Lessee, for which the Lessee shall be responsible to the Lessor.

(12) Return of the Object

Upon the expiration of the Tenancy Term or early termination of the Lease, the Lessee must rehabilitate the Object in the state indicated in the confirmation document signed upon acceptance, including but not limited to rehabilitating the ceiling system, spraying system, smoke detector, fan coil, air-conditioning temperature controller, lamp panel, air supply grille and return air inlet, unless with the consent of the owner.

The Object and all fixtures, fittings and ceilings therein returned by the Lessee must be complete, good, clean, rentable and in a proper maintenance status.

The personal property (including the name boards of the Lessee on doors, walls, etc. of the Object), fixtures and fittings and auxiliary equipment of the Lessee shall be removed as required by the Lessor upon the expiration of the Tenancy Term or early termination of the Lease, with the corresponding expenses to be borne by the Lessee. In addition, the Lessee shall compensate the Lessor any damage caused in the process of removing.

The Lessee shall allow the Lessor to remove from the directory texts and characters relating to the Lessee, and shall compensate the Lessor for its losses caused by the Lessee's failure to do so.

If, when the Lessee returns the Object, there remain some items, fixtures or fittings in the Object, the Lessee hereby declares that it has agreed to waive its ownership of such properties, and allow the Lessor to freely dispose such properties (including but not limited to abandonment, selling off or other means), except as otherwise agreed then by both parties.

The time for the Lessee to return the Object shall be subject to the written document signed by authorized representatives of the parties.

(13) Indemnification upon default

The Lessee shall indemnify and hold the Lessor harmless from losses caused by the following behavior that may be suffered or incurred by the Lessor, including lawsuits, claims, losses, damages and expenses: the Lessee fails to comply with or perform any of its responsibilities hereunder, or the use of the Object by the Lessee (including indoor installation and equipment of electricity and gas), the misconduct taken during the Tenancy Term against the Object, or the negligence or fault of the Lessee.

(14) Protection under severe weather

The Lessee shall take any reasonable preventive measure to prevent the Object from invasion of storm, heavy rain, snow or similar severe weather. Under the above severe weather, the Lessee shall especially make sure all exterior doors and windows are closed.

(15) Cancellation or alteration of industrial and commercial registration

The Lessee shall properly go through the cancellation or alteration of industrial and commercial registration with the unit as registered or business address upon the expiration of the Tenancy term or within 30 days after the date of early termination hereof.

(16) Maintenance of electrical equipment, pipelines and wirings

If the electrical equipment, wirings or pipelines installed by the Lessee become in danger or unsafe or as reasonably requested by the Lessor or the relevant municipal corporation, the Lessee shall repair or replace the above equipment, wirings or pipelines. At the time of maintenance, the Lessee may engage only the maintenance contractors designated or identified by the Lessor or the property management company designated by the Lessor in writing. The Lessee shall allow the Lessor or the property management company designated by the Lessor to examine the wirings or pipelines installed by the Lessee in the Object, provided that the Lessor or the property management company designated by the Lessor shall send a written request in advance and examine the devices at any reasonable time. The Lessee shall indemnify the Lessor harmless from claims, expenses, damages or lawsuits caused by faults or improper maintenance of electrical equipment, devices, pipelines and wirings installed by the Lessee in the Object.

(17) Sewer cleaning

When the sewer or sanitary fittings or other pipelines are plugged or stop work due to careless or improper use or negligence of the Lessee or its contractors, employees, agents or visitors, the Lessor or the property management company designated by the Lessor shall clean, repair or replace such pipelines first, with all costs incurred therefrom to be borne by the Lessee. Moreover, the Lessee shall undertake all expenses, claims or losses suffered by the Lessor therefrom.

(18) Transportation of waste and garbage

The Lessee shall carry away the waste and garbage generated during the decoration period, and place such waste and garbage in such locations within the building as designated by the Lessor or the property management company designated by the Lessor. If the Lessee uses the waste and garbage cleaning services provided by the Lessor or the property management company designated by the Lessor, the Lessee shall pay the relevant expenses and may not utilize the services provided by any similar contractor.

III. Obligations of the Lessor

The Lessor agrees to accept and perform the following:

(1) Non-interference

Under the premise that the Lessee pays the rent, property management fees and various other expenses in the way and amount prescribed herein and complies with and performs these terms and conditions that the Lessee shall comply with and perform, the Lessor shall make sure the Lessee's peaceful occupation and use of the Object during the Tenancy Term will not be interfered by the Lessor or any person legally claiming its rights through the Lessor (except the circumstances prescribed by Clauses (5) and (6), Article II of these Detailed Rules).

(2) Land use fees

Except the taxes and dues payable by the Lessee according to the Lease and/or relevant Chinese laws and regulations, all other land use fees and property taxes on the building shall be borne by the Lessor.

(3) Roof and main structure

The Lessor shall maintain the structure of the building in a good condition.

(4) Decoration

The Lessor may carry out all necessary decoration and place green plants in public areas of the building when it deems necessary.

(5) Cleaning and waste treatment

The Lessor shall keep the public areas, restrooms and other common parts of the building clean.

The Lessor shall be responsible for cleaning the outer walls of the building (except the part that shall be cleaned by the Lessee or the user).

(6) Shared facilities

The Lessor shall keep all elevators, firefighting and safety facilities, air conditioning equipment and other facilities in the building in a normal operation condition, and regularly repair and maintain the same.

After the receipt of a fault notice from the Lessee, the Lessor shall send certain personnel to repair the facilities in reasonable time (except the part that shall be repaired by the Lessee or the user).

(7) Directory

The Lessor shall provide a standard directory sign in the lobby and corresponding floors of the building and allocate appropriate places for the Lessee to add its name thereon according to unified font or character standards designated by the Lessor, the first installation of which will be free of charge.

(8) Air conditioning

The office building will offer central air conditioning at the following time:
9:00-18:00 from Monday to Friday, excluding other time and public holidays.

If the Lessee requires over-time air conditioning services beyond the above time, it shall notify the property management company designated by the Lessor 24 hours in advance. After the receipt of a reasonable notice from the Lessee, the property management company designated by the Lessor will provide such over-time air conditioning services. The charges of such over-time air conditioning services will be determined by the property management company designated by the Lessor and the Lessee will be informed thereof.

(9) Insurance

The Lessor shall purchase valid insurance for the public areas and shared facilities of the building.

IV. Restrictions and Prohibitions

The Lessee agrees to accept and perform the following:

(1) Installation and variation

- (a) Without the prior written consent of the Lessor and the property management company designated by the Lessor, it may not install, place or vary any fixture, partition or other assets and facilities belonged to the Lessor within the Object or any other part (including but not limited to: furniture, decoration, air conditioning, access control, etc.). Without the prior written consent of the Lessor and the property management company designated by the Lessor, the Lessee must not install or permit the installation of equipment and fixture on electric power circuits, pipelines and facilities, or install or permit the installation of any equipment, device or machinery which exceeds the originally designed capacity of the floor or requires addition of electric power circuits or pipelines or the power consumption of which will not be measured through the Lessee's electricity meter.

The Lessor or the property management company designated by the Lessor has the right to stipulate the maximum weight and placement location of safe deposit boxes and other heavy equipment. The Lessor or the property management company designated by the Lessor may require the Lessee to put pad in the specified size and material at the bottom to disperse the weight when it deems necessary.

- (b) When performing an approved project, the Lessee shall procure its employees, agent, contractors and workers to fully cooperate with the Lessor, the property management company designated by the Lessor and the Lessor's employees, agent, contractors and workers; and to work with other tenants or contractors working in the building.

The Lessee and its employees, agents, contractors and workers shall abide by and follow all instructions and guidance from the Lessor or the property management company designated by the Lessor.

- (c) When modifying or altering electric circuits, access control, firefighting or air conditioning systems, the Lessee shall use the contractors designated or identified by the Lessor and the property management company designated by the Lessor in writing, and shall bear all corresponding expenses.

(2) Rules for commencement of operations

The Lessee shall obtain and maintain in the entire Tenancy Term the validity of permission or approval (if any) from the government or other related departments on its use or occupation of the Object. Upon the receipt of a notice from the government or any other related department concerning the Object or any service provided in the Object, the Lessee shall inform the Lessor in writing.

(3) Marks

The Lessee may not place or exhibit or allow other to place or exhibit any billboard, mark, ornament, advertisement or other product in or out of the Object, whether equipped with lighting to make it visible from the outside, except:

- (a) The Lessee may, at its own costs, require the Lessor or the property management company designated by the Lessor to arrange the placement of its name (and any future addition or alteration) on the directory in the unified Chinese and English model designed by the Lessor.
- (b) The Lessee may, at its own costs, place its name at the entrance of the Object in the font and size approved by the Lessor. If the Lessee carries on business in another name, it shall notify the Lessor of such name, and may exhibit such name at the entrance only with the written consent of the Lessor. Without the prior written permission of the Lessor, the Lessee may not change the name of its business.

(4) Application

The Lessee may not use or allow the use of the Object for any application other than the office purpose as explicitly prescribed in the Lease.

(5) Illegal or unethical use

The Lessee may not use or allow the use of the Object for any illegal or unethical purpose.

(6) Passage obstruction

The Lessee may not obstruct or allow the obstruction of the entrance, stairs, platforms, passages, escalators, elevators, lobby and other public parts of the office building with boxes, packaging scraps and obstructions in other natures.

When it deems fit, the Lessor has the right to move away the abovementioned debris or other items or things without notice to the Lessee, with all related expenses to be borne by the Lessee.

(7) Wires and cables in public areas

The Lessee may not lay or install attached electric wires, cables or other items and things at the entrance and exit, stairs, passages, lobby and other places in public areas of the building.

(8) Sublease and assignment

Without the written consent of the Lessor, the Lessee may not transfer, sublease, waive or assign the Object leased or any part thereof or any interest thereon, nor make any arrangement or transaction, that results in a non-party to the Lease acquiring or enjoying the right to use, take on lease and occupy the Object leased or any part thereof, regardless of whether rent or other considerations have been paid for such acquisition.

(9) Violation of insurance terms

The Lessee may not carry out or allow others to carry out any act or thing that will or may invalidate the fire insurance, third-party liability insurance and insurance covering other risks of the building.

The Lessee may not carry out or allow others to carry out any act or thing that will increase the premium. If any act or thing conducted or allowed to be conducted by the Lessee increases the premium, the Lessor shall be entitled to recover from the Lessee the increment, without prejudice to any other remedy available to the Lessor.

(10) Air conditioning

Except with the written permission of the Lessor and the property management company designated by the Lessor, the Lessee may not additionally install air conditioning facilities other than those provided by the Lessor.

(11) Parking

The Lessee may not park in parking spaces assigned to other vehicles, public driveways, entrance and exit for vehicles or other areas specified for loading and unloading purposes, nor allow its employees, agents, contractors or visitors to do so.

(12) Use of name

The Lessee may only use the name "SOHU.COM Internet Plaza Office Building" or the name and logo of the building or any part thereof to indicate its address and business location. Without the prior written approval of the Lessor, the Lessee may not use or allow the use of any picture, name or logo or those which are wholly or partially similar to any name and logo of the Lessor, "SOHU.COM Internet Plaza Office Building" and the building to serve its business, operations and other purposes.

(13) No auction or solicitation

The Lessee may not organize or allow the organization of any auction in the Object leased. The Lessee may not permit any of its employees or agents to solicit any business or hand out any leaflet, circular or publicity material within the redline scope of SOHU.COM Internet Plaza Office Building.

(14) Damage to the main structure, equipment and facilities

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not carve on, damage, drill holes on, mark or destroy the doors, windows, walls, beams, structure and any other parts of the Object as well as any sewer line, sanitation and air conditioning facility thereof or allow any foregoing behavior.

(15) Damage to wall surface, ceiling and ground

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not drive nails, screws, inlaid hooks, brackets or other similar items on the ceiling, wall surface and ground of the Object leased, nor destroy the ground.

(16) Damage to public areas

The Lessee may not damage, ruin or destroy the feature, stairs and elevators placed in the public areas of the building, including surrounding trees, plants and shrubs, etc.

(17) Disturbance or interference

The Lessee may not cause or allow any possible disturbance to the Lessor, other users or tenants in the building, nor interfere with adjacent user or tenants.

(18) Noise

At no time may the Lessee make or allow the making of any disturbing or stimulating noise in the Object, or make any music or noise (including broadcasting or voice produced by any device or equipment that can generate or copy, receive or record) audible from outside the Object.

(19) Dormitory or home use

The Lessee may not use the Object or any part thereof as dormitory.

(20) Manufacturing and storage of goods

The Lessee may not use or allow the use of the Object for production and manufacturing or storage of goods and commodities, except for the samples and exhibits stored reasonably required for the business permitted hereunder.

(21) Toilet facilities

The Lessee may not use or allow the use of toilet facilities provided by the Lessor in the public areas of the Object or the building for any purposes other than their designed purposes.

The Lessee may not and shall not allow others to throw any irrelevant item into toilet facilities, and shall pay all expenses as required by the Lessor for damage, breakage, blocking or spoil caused by the Lessee's violation of the current clause.

(22) Meal preparation and preventing the disperse of odor

The Lessee may not cook or allow or tolerate anyone to cook any food in the leased units (other than oven heating of food by the Lessee's employees in tea rooms), and may not procure or allow any disgusting smell or odor from generating or emitting.

(23) Animals, pets and spread of pests

The Lessee may not breed or allow others to breed any animal or pet in the Object. The Lessee shall take all measures required by the Lessor to prevent the Object or any part thereof from pest invasion at its own costs, shall hire disinfection companies with Beijing pest control service agency qualifications at its own costs, and shall insecticide on a regular basis as instructed by the Lessor or the property management company designated by the Lessor.

(24) Antenna

The Lessee may not install any antenna on the roof or walls of the building or the ceiling or wall surface of the Object. Moreover, the Lessee may not interfere, move dismantle or change the antenna provided by the Lessor, if any.

(25) Explosives or hazardous articles

The Lessee may not deposit or allow the storage of any weapon, ammunition, potassium nitrate, kerosene or other explosive, inflammable or hazardous articles in the Object.

V. Exceptions

Except due to the fault of the Lessor, the property management company designated by the Lessor or their respective employees or agents, the Lessor shall undertake no responsibility to the Lessee, any user or others upon any of the following circumstances:

(1) Elevators, air conditioning and others

Personal injury or property damage suffered by the Lessee, any user or others as a result of quality defects or stoppage of elevators, firefighting and security settings, air conditioning equipment and other equipment of the building;

(2) Supply of power and water

Personal injury or property damage suffered by the Lessee, any user or others because of supply fault, stoppage, explosion and suspension of power and water to the building and the Object;

(3) Fire, flood and plague of insects

Personal injury or property damage suffered by the Lessee, any user or others due to fire, overflow or water leakage in any part of the building, or water flowing into the building or the Object, or mouse and other insects in the building;

(4) Security

Regarding the quality, security or custody of the Object or any individual or goods therein, especially without limiting the generality of the foregoing, the security guards and administrators or mechanic or electric alarm systems of any nature provided by the Lessor or the property management company designated by the Lessor shall constitute no safety responsibility of the Lessor or the property management company designated by the Lessor to the Object or any article therein, instead, the Lessee shall always take full responsibility for the safety of the Object and the items therein;

(5) Incompliance

Losses and damages caused by the Lessee or the third party failing to perform applicable regulations or to comply with Part IX of these Detailed Rules.

VI. Reduction of Rent

When the Object and any part thereof is damaged or the Object becomes unfit for use or lease due to fire, severe weather, act of God, force majeure or other events not directly or indirectly caused by acts or faults of the Lessee (in this case, the Lessee shall timely notify the Lessor in writing), upon consensus between the parties, the Lessee may stop paying rent and property management fees in respect of the part of the Object damaged, until the Object is repaired and restored.

When economically unreasonable and impractical, the Lessor has no obligation to repair or rehabilitate the Object; or, if the entire Object or the substantial part of the Object is destroyed or unfit for reuse and lease, in both cases, the parties hereto shall be entitled to terminate the Lease by giving to the other party a written notice, without prejudice to the rights and compensation available to either party in respect of any prior claim or violation of the Lease, or rights and compensation available to the Lessor in respect of rent, property management fees and other expenses payable hereunder accrued before the effectiveness of termination. In such case, the Lessor shall return the deposit for the premises.

VII. Default

Both parties further agree and acknowledge as follows:

(1) Default

Upon the occurrence of any of the following, the Lessor shall be entitled to terminate the Lease, to take back the Object leased by the Lessee 30 working days after informing the Lessee in writing in advance, and to claim the Lessee for compensation of its losses if:

- (a) The rent or property management fees or other expenses payable by the Lessee hereunder remain unpaid within 30 working days after the due date;
- (b) If the Lessee fails to comply with and perform any term and condition hereunder that the Lessee shall comply with and perform and causes material damage to the Lessor; or the Lessee fails to rectify the above default within 30 days after the expiration of the period notified by the Lessor in writing;
- (c) The Lessee goes bankrupt or starts liquidation as a corporation, or is applied for liquidation, or becomes insolvent, or has made arrangement with its creditors, or has exerted any legal arrangement on the Object leased by the Lessee;

(d) The main structure of the Object is substantially damaged due to reasons of the Lessee, and the Lessee fails to make compensation within 30 days after the expiration of the period notified by the Lessor in writing.

This right of the Lessor will not prevent it from exercising the right to lodge a lawsuit in the event that the Lessee breaches the Lease or fails to comply with or perform any term and condition of the Lease, nor prevent it from exercising the right to deduct the losses incurred therefrom from the deposit paid by the Lessee and to confiscate the deposit in accordance with Article VIII of these Detailed Rules.

Notwithstanding the foregoing, the Lessor or the property management company designated by the Lessor has the right to cut off water, power or air conditioning of the Object leased by the Lessee without any responsibility, provided that the Lessee shall be notified of such intention three days in advance. The expenses incurred by the Lessor or the property management company designated by the Lessor due to cut-off and re-connecting of water, power or air conditioning shall be borne by the Lessee, which may be recovered by the Lessor from the Lessee or deducted from the deposit paid by the Lessee in accordance with Article VIII of these Detailed Rules.

(2) Exercise of rights

Instead of actually entering the Object, the Lessor sending to the Lessee a written notice of taking back the Object in the form prescribed by the Lease will be deemed as fully exercising the right. The Lessor will be deemed to have taken back the Object and the Lessee be deemed to have been expelled from the Object seven days after the Lessor delivers such a written notice (that is, the evacuation period for the Lessee). During the evacuation period, if the Lessee fails to restore the Object to the state described in the confirmation document signed upon acceptance of the Object, the Lessor shall be entitled to freely dispose any item left by the Lessee in the Object without taking any responsibility to the Lessee, and all expenses resulting therefrom shall be borne by the Lessee.

When the Lessee returns the Object, if there remains some items, fixtures or fittings in the Object, the Lessee hereby declares a waiver of its ownership of such properties, and consents to free disposal by the Lessor of such properties (including but not limited to abandonment, selling off or other means), with all proceeds thereof to the account of the Lessor (if any) and all expenses involved to be borne by the Lessee (if any). The Lessor shall assume no responsibility to the Lessee or any other person for any loss or damage caused by such disposal or any other treatment method.

(3) Acceptance of rent and property management fees

The acceptance of rent by the Lessor and the acceptance of property management fees by the property management company designated by the Lessor shall not be deemed as an automatic waiver of their right to prosecute the Lessee for default, noncompliance with or nonperformance of terms and conditions it shall comply with and perform.

(4) Acts of contractors, employees, agents and visitors

For the purpose of the Lease, any act of any employee, visitor, contractor, representative or agent of the Lessee or user of the Object shall be deemed as act of the Lessee.

(5) Payment order

The failure of the Lessee to pay the rent and property management fee for the Object in the time and manner prescribed by the Lease shall constitute delay in payment. In such case, the Lessor or the property management company designated by the Lessor may apply to the people's court for a payment order in accordance with the *Civil Procedure Law of the People's Republic of China*, with all related expenses incurred therefrom to be borne by the Lessee.

(6) Overdue fines

Without prejudice to any other right and remedial measure available to the Lessor upon default, if the rent, property management fees, any other expenses or a part thereof hereunder haven't been paid in the way and time prescribed in Articles 4 to 6 of the Lease and Part I of the Detailed Rules, the Lessee shall pay overdue fines equivalent to 0.1% of the aggregate amount due but unpaid each day from the due date to the actual payment date (both the due date and the actual payment date are included).

(7) Commitment

Unless otherwise specified herein, in no event (except force majeure) may the Lessee terminate the Lease in advance during the Tenancy Term, if the Lease is early terminated or becomes unfulfillable due to reasons of the Lessee, the Lessor is not liable to return to the Lessee the paid deposit. The Lessor may not terminate the Lease for no cause, or otherwise, it shall be liable for breach of contract.

VIII. Deposit

(1) Deposit

Simultaneously with the execution of the Lease, the Lessee shall pay to the Lessor the deposit prescribed in Article 5 of the Lease, so as to ensure the compliance with the terms and conditions the Lessee shall comply with and perform.

The deposit shall be preserved free of interest by the Lessor on behalf of the Lessee.

(2) Withholding and deduction of deposit

In the instance the Lessee violates any term or condition of the Lease, the Lessor shall be entitled to urge actual performance and deduct from the deposit: the expenses due but unpaid by the Lessee, the charges required to be assumed by the Lessee according to the Lease or provisions of laws and regulations, or losses suffered by the Lessor because of default, incompliance or nonperformance of the Lessee.

(3) Complement of deposit

Pursuant to the Lease, in case the rent and property management fees increase in the Tenancy Term, or the deposit becomes insufficient as deducted by the Lessor due to default of the Lessee, the Lessee shall, within ten working days after the receipt of a written notice from the Lessor or the property management company designated by the Lessor, make up the deposit.

Complementing the deposit is a prerequisite for further performance of the Lease. If the Lessee fails to do so, the Lessor shall be entitled to exercise all remedies and rights available.

(4) Return of deposit

Subject to the above provisions, the deposit shall be returned in Renminbi free of interest to the Lessee at the latest of thirty days after the Object vacated is handed over to the Lessor upon expiration of the Lease, or thirty days after the resolution of claims arising from default, noncompliance with or nonperformance of the terms and conditions of the Lease and from noncompliance and nonperformance of regulations that the Lessee shall comply with and perform, or thirty days after the settlement of the Lessee's accounts with the telecommunications company and the power corporation, except the part that the Lessor has the right to deduct, withhold or offset pursuant to the Lease.

(5) Change of Lessor

If the Lessor changes during the Tenancy Term, all rights and obligations in respect of the deposit paid by the Lessee or the deposit remaining after the Lessor exercises its deduction right according to the Lease shall be succeeded by the new lessor. In this case, the Lessor shall make sure the Lessee's rights will not be adversely affected by such change of lessor.

IX. Rules

(1) Formulation of rules

To facilitate the building to become a first-class office building, as long as good for the operation management and maintenance of the building, the Lessor or the property management company designated by the Lessor has the right to publish, introduce, modify, adopt or abolish any rules in writing at any time, provided that the Lessee shall be informed in advance. When the formulation and update of any rules cause a significant impact on the Lessee's rights, the Lessee shall be entitled to raise an objection and retains the right to recover its losses from the Lessor.

(2) Conflict

Such rules are merely supplementary to these terms and conditions of the Lease, which will not invalidate the latter. In the case of controversy between such rules and these terms and conditions hereof, the terms and conditions of the Lease shall prevail.

X. Interpretation and Miscellaneous

(1) Marginal notes, headings and indexes

The marginal notes, headings and indexes are for guidance only, and shall not constitute an integral part of the Lease, which shall not be given consideration to or affect or restrict the interpretation or clarification of any provision hereof.

(2) No waiver by tolerance

The Lessor's tolerance, forgiveness or excuse of one-off or repeated nonperformance, violation, incompliance or non-execution of responsibility hereunder by the Lessee doesn't imply a waiver of rights regarding continuous or further nonperformance, violation, incompliance or non-execution by the Lessee, nor eliminate or affect the Lessor's rights or compensation available hereunder in respect of such continuous or further nonperformance of violation.

Unless the Lessor waives its rights in written statement, no act or omission of the Lessor implies waiver of rights or infers as waiver.

Any approval given by the Lessor applies only to certain issues specifically approved, which shall not operate as simultaneous waiver of other rights available to the Lessor nor exempt the Lessee from further applying to the Lessor for any other specific written approval.

(3) Service of notice

Any notice required to be given shall be written in Chinese, and sent by double-registered letter, express mail, personal delivery, facsimile or any other means permitted by law to the legal address or the latest contact address provided by the other party from time to time.

The parties specifically agree that, the above notices and other correspondences shall be deemed effectively delivered on:

- (a) The date listed in the receipt if sent by double-registered letter or express mail;
- (b) The date of personal delivery;
- (c) The transmission time indicated in the fax report or the date on which the recipient acknowledges receipt if sent by facsimile;
- (d) After the Object is delivered to the Lessee, the Lessor may serve notices to the Lessee by posting announcements in visible places near the Object, and the notices shall be deemed delivered on the date of announcement.

(4) Naming of the building

The Lessor retains the right to rename SOHU.COM Internet Plaza Office Building at its own discretion and the right to change, replace or cancel the original name at any time or from time to time, without any compensation to the Lessee. However, if the Lessor chooses to do so, an announcement regarding the notice of relevant government agency shall be posted in the building in advance.

(5) Replacement of property management company

To facilitate the building to become a first-class office building, the Lessor has the right to select and replace property management companies.

(6) Applicable law and jurisdiction

The Lease shall be governed and construed by the laws of the People's Republic of China (excluding laws of Hong Kong, Macao and Taiwan). Any dispute between the parties that cannot be solved through consultation may be solved by means of lawsuits.

(7) Business license

Before the execution of the Lease, if applicable, the Lessee shall present to the Lessor its business license or registration certificate approved by the government of the People's Republic of China, and the original power of attorney authorizing representatives of the Lessee to enter into the Lease as Annex IV hereto.

(8) Written in Chinese and signature

The Lease is written and signed in Chinese. Any English translated version provided by the Lessor shall be used for reference only. The Lessor hasn't guaranteed the consistency between the contents, wording and expressions in the English version and the Chinese version, and in the case of controversy or difference, the Chinese version shall prevail.

(9) Modification, supplementary, deletion and alteration to the Lease

No modification, supplementary, deletion or alteration to the Lease shall be valid unless made in writing, signed by duly authorized representatives of the parties and affixed with their common seals.

The above common seals shall be deemed to have been affixed on the date signed by the foregoing authorized representatives.

(10) Counterparts and legal force

The Lease, its annexes and Detailed Rules have been made in quadruplicate, with each party holding two copies, all being of the same legal effect.

[No text below]

Signature of representative of the Lessor (seal)

Beijing Sohu New Media Information Technology Co., Ltd.

Signature of representative of the Lessee (seal)

Beijing Sogou Network Technology Co., Ltd.

Date: December 30, 2016

Supplementary Agreement to the Lease of Office Building in SOHU.com Internet Plaza

Party A: Beijing Sohu New Media Information Technology Co., Ltd.

Party B: Beijing Sogou Network Technology Co., Ltd.

This Supplementary Agreement (hereinafter referred to as "this Supplementary Agreement") to the Lease of Office Building in SOHU.com Internet Plaza between the Parties on December 30, 2016 (Party B No.: 16-ES-12758) (hereinafter referred to as the "Original Contract") is hereby entered into by and between Party A and Party B through friendly negotiation:

1. Subject Matter

Leased area in the Original Contract: 8/F, 9/F, 11/F, 12/F and 13/F (actual floor) of the Office Building, which is shown as 8/F, 9/F, 11/F, 12/F and 15/F in the elevator, with a leased area of 11,015.37 m² in total; on this basis, Party A rents out additional 362.24 m² to Party B, so the leased area is 11,377.61 m² in total;

The specific added location is set out in Appendix I in detail.

2. Lease Term

Lease term of the area of the newly added subject matter hereof:

Commencement Date: January 1, 2017

Termination Date: December 31, 2019

3. Rent

Expense of the newly added subject matter hereof, the monthly rent for which is as follows:

Rent Standard: RMB 264.62/month/ m²

Monthly Rent: RMB 95,855.94

(Rent shall be calculated on the basis of the newly added leased area of 362.24 m² and the unit price of RMB 264.62/month/ m², and shall be settled in RMB.)

4. Security Deposit

- (1) The security deposit for the newly added leased area herein shall be RMB 287,567.84 (equivalent to rent of three months) without interest;
- (2) Upon conclusion of this Supplementary Agreement, Party B shall pay the security deposit to Party A pursuant to the stipulated amount.

5. Other matters other than those stipulated herein shall be subject to the terms of the Original Contract.

6. Anything not mentioned herein shall be solved by the Parties through negotiation.

7. This Supplementary Agreement shall be made in quadruplicate with each party holding two copies. Each copy shall have equal legal force.

8. This Supplementary Agreement shall come into force as from the date on which the Parties affix the seal.

(Remainder of page intentionally left blank)

Party A:

Authorized Representative:

Date: January 6, 2017

Party B:

Authorized Representative:

Date:

Statistical Table for Floor Area of SOHU.com Internet Plaza

<u>Floor</u>	<u>Location</u>	<u>Area Used by Sohu (m²)</u>	<u>Signed by</u>	<u>Floor Area</u>	<u>Area Leased by Sogou</u>
7F	Storeroom 2(Finance Center)	8.58	New Era	2,596.64	2,573.44
	Storeroom 8(ES Engineering Group)	14.62			
	801 Storeroom 5(Network Operations Department)	4.31	New Era		
8F	Storeroom 3(Network Security Center)	5.75	New Media	2,600.86	1,287.95
	Machine Room (Totally 41.44 m ²)	10			
	Water Cooler Area of 65 Station Region	31.44 6.4 252.95			
9F		0	New Media	2,605.08	2,605.08
10F	IVR Room and Broadcasting / Recording Room	8.3	New Era	2,609.3	2,596.85
	Staff Service Center	4.15			
	Test Room (Network Operations Department)	44.25			
11F	Storeroom 1 (ES Property Group)	4.4	New Media	2,613.51	2,295.82485
	Water Cooler	20.7			
	Area of 73 Station Region	248.34			
	Storeroom 1 (ES Engineering Group) Storeroom 6 (ES Property Group)	7.75 8.3			
12F	Large Studio	228.94	New Media	2,617.73	2,349.74
	Middle Studio				
	Small Studio				
	Control Room VIP Reception				
15F	Storeroom 1 (Finance Center)	9.3	New Media	2,621.95	2,476.78

Storeroom 4 (Finance Center)	7		
Storeroom 2 (Network Operations Department)	8.8		
Storeroom 5 (Finance Center)	3.3		
Office for General Manager Zhang	37.2		
Office for Carol	25.68		
Meeting Room	18.5		
Office for Li Wei	26.42		
Ma Zhiyan	8.97		
Gross Area	1,077.34	18,265.07	17,187.73
New Area Split to Sogou	362.24		
Remaining Area of Sohu	715.11		

Supplementary Agreement II to the Lease of Office Building in SOHU.com Internet Plaza

Party A: Beijing Sohu New Media Information Technology Co., Ltd.

Party B: Beijing Sogou Network Technology Co., Ltd.

Whereas:

1. Party A and Party B have entered into the Lease of Office Building in SOHU.com Internet Plaza on December 30, 2016 (Party B No.: 16-ES-12758) (hereinafter referred to as the "Original Contract");
2. Party A and Party B have entered into a Supplementary Agreement to the Lease of Office Building in SOHU.com Internet Plaza on January 6, 2017 (Party A No.: 16-GNL-ES-05765) (hereinafter referred to as the "Supplementary Agreement I").

The Parties have reached this Supplementary Agreement (hereinafter referred to as "this Supplementary Agreement") through friendly negotiation:

1. Subject Matter

Leased area in the Original Contract and Supplementary Agreement I: 8/F, 9/F, 11/F, 12/F and 13/F (actual floor) of the Office Building, which is shown as 8/F, 9/F, 11/F, 12/F and 15/F in the elevator, with a leased area of 11,377.61 m² in total; on this basis, Party A rents out additional 642.26 m² to Party B, so the leased area is 12,019.87 m² in total;

The specific added location is set out in Appendix I in detail.

2. Lease Term

Lease term of the area of the newly added subject matter hereof:

Commencement Date: April 16, 2017

Termination Date: December 31, 2019

3. Rent

Expense of the newly added subject matter hereof, the monthly rent for which is as follows:

Rent Standard: RMB 264.62/month/ m²

Monthly rent of the newly added part: RMB 169,954.84

(Rent shall be calculated on the basis of the newly added leased area of 642.26 m² and the unit price of RMB 264.62/month/ m², and shall be settled in RMB.)

The total rent payable by Party B per month shall be RMB 3,180,697.99.

4. Security Deposit

(1) The security deposit for the newly added leased area herein shall be RMB 509,864.52 (equivalent to rent of three months) without interest; thus the total security deposit payable by Party B to Party A shall be RMB 9,542,093.99;

(2) Upon conclusion of this Supplementary Agreement, Party B shall pay the security deposit to Party A pursuant to the stipulated amount.

5. Other matters other than those stipulated herein shall be subject to the terms of the Original Contract and Supplementary Agreement I.

6. Anything not mentioned herein shall be solved by the Parties through negotiation.

7. This Supplementary Agreement shall be made in quadruplicate with each party holding two copies. Each copy shall have equal legal force.

8. This Supplementary Agreement shall come into force as from the date on which the Parties affix the seal.

(Remainder of page intentionally left blank)

Party A:

Party B: Beijing Sogou Network Technology Co., Ltd.

Authorized Representative:

Authorized Representative:

Date: April 28, 2017

Date:

Statistical Table for Floor Area of SOHU.com Internet Plaza

<u>Floor</u>	<u>Location</u>	<u>Area Used by Sohu (m2)</u>	<u>Signed by</u>	<u>Floor Area</u>	<u>Area Leased by Sogou</u>
7F	Storeroom 2 (Finance Center)	8.58	New Era	2,596.64	2,573.44
	Storeroom 8 (ES Engineering Group)	14.62			
8F	801		New Era		1,002.07
	Storeroom 3 (Network Security Center)	5.75	New Media	2,600.86	1,323.70
	Machine Room (Totally 41.44 m ²)	10			
	Water Cooler	6.40			
Area of 65 Station Region	252.95				
9F		0	New Media	2,605.08	2,605.08
10F	IVR Room and Broadcasting / Recording Room	8.3	New Era	2,609.3	2,596.85
	Staff Service Center	4.15			
11F		0	New Media	2,613.51	2,613.51
	Storeroom 1 (ES Engineering Group)	7.75			
	Storeroom 6 (ES Property Group)	8.3			
12F	Large Studio		New Media	2,617.73	2,349.74
	Middle Studio	228.94			
	Small Studio				
	Control Room				
	VIP Reception	23			
	Storeroom 1 (Finance Center)	9.3			
	Storeroom 4 (Finance Center)	7			
Storeroom 5 (Finance Center)	3.3				
15F	Office for General Manager Zhang	37.2	New Media	2,621.95	2,485.58
	Office for Carol	25.68			
	Meeting Room	18.5			
	Office for Li Wei	26.42			
	Ma Zhiyan	8.97			
	Gross Area	715.11			
	New Area Split to Sogou	677.91			
	Remaining Area of Sohu	37.20			

I, Charles Zhang, certify that:

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

Dated: November 3, 2017

/s/ Charles Zhang

Charles Zhang

Chief Executive Officer and Chairman of the Board of Directors

I, Joanna Lv, certify that:

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

Dated: November 3, 2017

/s/ Joanna Lv

Joanna Lv

Acting Chief Financial Officer

SOHU.COM INC.

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

In connection with the Quarterly Report of Sohu.com Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of September 30, 2017 and results of operations of the Company for the three months ended September 30, 2017.

/s/ Charles Zhang

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

November 3, 2017

SOHU.COM INC.

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

In connection with the Quarterly Report of Sohu.com Inc. (the "Company") on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joanna Lv, Acting Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of September 30, 2017 and results of operations of the Company for the three months ended September 30, 2017.

/s/ Joanna Lv

Joanna Lv, Acting Chief Financial Officer

November 3, 2017