

**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, 2010**

**OR**

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

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

**COMMISSION FILE NUMBER 0-30961**

**Sohu.com Inc.**

**(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)**

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

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

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

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

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

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

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

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

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

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

<u>Class</u>	<u>Outstanding at September 30, 2010</u>
<b>Common stock, \$.001 par value</b>	<b>37,937,980</b>

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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	
	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 534,662	\$ 563,782
Investment in debt securities	74,615	0
Accounts receivable, net	70,102	46,610
Prepaid and other current assets	19,866	10,781
Total current assets	699,245	621,173
Fixed assets, net	119,207	115,088
Goodwill	67,736	55,555
Intangible assets, net	13,478	7,933
Prepaid non-current assets	138,992	26,207
Other assets, net	7,963	2,317
Total assets	<u>\$ 1,046,621</u>	<u>\$ 828,273</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,475	\$ 4,602
Accrued liabilities to suppliers and agents	57,907	41,103
Receipts in advance and deferred revenue	49,555	36,944
Accrued salary and benefits	31,258	28,860
Tax payables	24,044	21,953
Other accrued liabilities	22,986	17,035
Total current liabilities	193,225	150,497
Contingent consideration	1,343	0
Total liabilities	194,568	150,497
Commitments and contingencies		
Shareholders' equity		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 shares authorized; 37,938 and 37,749 shares issued and outstanding, respectively)	43	43
Additional paid-in capital	331,466	317,052
Treasury stock (5,389 shares)	(114,690)	(114,690)
Accumulated other comprehensive income	30,890	21,502
Retained earnings	490,527	385,874
Total Sohu.com Inc. shareholders' equity	738,236	609,781
Noncontrolling interest	113,817	67,995
Total shareholders' equity	852,053	677,776
Total liabilities and shareholders' equity	<u>\$ 1,046,621</u>	<u>\$ 828,273</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Advertising:				
Brand advertising	\$ 59,083	\$ 48,502	\$ 151,757	\$ 131,197
Sponsored search	5,367	2,292	12,092	5,623
Subtotal of advertising revenues	<u>64,450</u>	<u>50,794</u>	<u>163,849</u>	<u>136,820</u>
Online game	85,623	68,684	235,416	196,887
Wireless and others	13,991	17,107	40,350	45,701
Total revenues	<u>164,064</u>	<u>136,585</u>	<u>439,615</u>	<u>379,408</u>
<b>Cost of revenues:</b>				
Advertising:				
Brand advertising	23,256	15,418	62,795	43,213
Sponsored search	3,803	2,728	10,223	7,291
Subtotal of cost of advertising revenues	<u>27,059</u>	<u>18,146</u>	<u>73,018</u>	<u>50,504</u>
Online game	8,537	4,713	20,929	12,086
Wireless and others	7,580	10,331	20,976	26,972
Total cost of revenues	<u>43,176</u>	<u>33,190</u>	<u>114,923</u>	<u>89,562</u>
Gross profit	120,888	103,395	324,692	289,846
<b>Operating expenses:</b>				
Product development	19,454	14,531	51,853	42,482
Sales and marketing	25,410	25,457	78,025	68,093
General and administrative	10,619	10,721	29,886	27,823
Amortization of intangible assets	163	93	410	295
Total operating expenses	<u>55,646</u>	<u>50,802</u>	<u>160,174</u>	<u>138,693</u>
Operating profit	65,242	52,593	164,518	151,153
Other (expense) income	(939)	40	(1,294)	103
Interest income and exchange difference	1,050	1,469	3,207	3,865
Income before income tax expense	65,353	54,102	166,431	155,121
Income tax expense	(11,340)	(7,022)	(25,632)	(21,577)
Income from continuing operations	54,013	47,080	140,799	133,544
Gain from discontinued e-commerce operations	0	0	0	446
Net income	54,013	47,080	140,799	133,990
Less: Net income attributable to the noncontrolling interest	13,004	9,726	36,146	18,506
Net income attributable to Sohu.com Inc.	<u>\$ 41,009</u>	<u>\$ 37,354</u>	<u>\$ 104,653</u>	<u>\$ 115,484</u>
Basic net income per share attributable to Sohu.com Inc.	<u>\$ 1.08</u>	<u>\$ 0.97</u>	<u>\$ 2.77</u>	<u>\$ 3.02</u>
Shares used in computing basic net income per share attributable to Sohu.com Inc.	<u>37,896</u>	<u>38,410</u>	<u>37,832</u>	<u>38,286</u>
Diluted net income per share attributable to Sohu.com Inc.	<u>\$ 1.01</u>	<u>\$ 0.88</u>	<u>\$ 2.55</u>	<u>\$ 2.82</u>
Shares used in computing diluted net income per share attributable to Sohu.com Inc.	<u>38,377</u>	<u>39,082</u>	<u>38,370</u>	<u>38,985</u>

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

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

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 140,799	\$ 133,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,320	12,007
Share-based compensation expense	19,542	13,385
Amortization of intangible assets and other assets	2,899	1,355
Provision for allowance for doubtful accounts	88	393
(Excess tax benefits) Reversal of excess tax benefits from share-based payment arrangements	(1,888)	678
Others	832	309
Changes in assets and liabilities, net of acquisition:		
Prepaid and other current assets	(8,449)	15,753
Accounts receivable	(19,002)	(23,167)
Tax payables	2,578	1,225
Accrued liabilities to suppliers and agents	16,804	5,990
Receipts in advance and deferred revenue	8,413	4,098
Accounts payable	2,873	2,485
Other accrued liabilities	3,308	(76)
Net cash provided by operating activities	<u>184,117</u>	<u>168,425</u>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(125,522)	(18,167)
Purchase of debt securities	(74,615)	0
Purchase of intangible and other assets	(5,305)	(319)
Decrease in restricted cash	0	2,671
Acquisitions, net of cash acquired	(14,166)	0
Net cash used in investing activities	<u>(219,608)</u>	<u>(15,815)</u>
<b>Cash flows from financing activities:</b>		
Issuance of common stock	968	3,787
Excess tax benefits (Reversal of excess tax benefits) from share-based payment arrangements	1,888	(678)
Proceeds from Changyou's initial public offering	0	128,340
Other payments relating to financing activities, net	(3,000)	(1,865)
Net cash (used in) provided by financing activities	<u>(144)</u>	<u>129,584</u>
Effect of exchange rate changes on cash and cash equivalents	6,515	(266)
Net (decrease) increase in cash and cash equivalents	<u>(29,120)</u>	<u>281,928</u>
Cash and cash equivalents at beginning of period	563,782	314,425
Cash and cash equivalents at end of period	<u>\$ 534,662</u>	<u>\$ 596,353</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, 2010**  
**(In thousands)**

	<u>Sohu.com Inc. Shareholders' Equity</u>							
	<u>Total</u>	<u>Comprehensive Income</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	\$677,776	\$ 0	\$ 43	\$317,052	\$(114,690)	\$ 21,502	\$385,874	\$ 67,995
Issuance of common stock	968	0	0	968	0	0	0	0
Share-based compensation expense	19,542	0	0	11,558	0	0	0	7,984
Excess tax benefits from share-based awards	1,888	0	0	1,888	0	0	0	0
Comprehensive income:								
Net income	140,799	140,799	0	0	0	0	104,653	36,146
Other comprehensive income:								
Foreign currency translation adjustment	11,080	11,080	0	0	0	9,388	0	1,692
Total other comprehensive income	11,080	11,080						
Total comprehensive income	<u>151,879</u>	<u>151,879</u>						
Comprehensive income attributable to the noncontrolling interest		<u>(37,838)</u>						
Comprehensive income attributable to Sohu.com Inc.		<u>\$ 114,041</u>						
Ending balance	<u>\$852,053</u>		<u>\$ 43</u>	<u>\$331,466</u>	<u>\$(114,690)</u>	<u>\$ 30,890</u>	<u>\$490,527</u>	<u>\$ 113,817</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, 2009**  
**(In thousands)**

	<u>Sohu.com Inc. Shareholders' Equity</u>							
	<u>Total</u>	<u>Comprehensive Income</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	\$391,094	\$ 0	\$ 43	\$201,196	\$(74,683)	\$ 21,349	\$238,041	\$ 5,148
Issuance of common stock	3,787	0	0	3,787	0	0	0	0
Share-based compensation expense	13,385	0	0	7,231	0	0	0	6,154
Reversal of excess tax benefits from share-based awards	(858)	0	0	(858)	0	0	0	0
Comprehensive income:								
Net income	133,990	133,990	0	0	0	0	115,484	18,506
Other comprehensive income:								
Foreign currency translation adjustment	311	311	0	0	0	118	0	193
Total other comprehensive income	311	311						
Total comprehensive income	<u>134,301</u>	<u>134,301</u>						
Comprehensive income attributable to the noncontrolling interest		<u>(18,699)</u>						
Comprehensive income attributable to Sohu.com Inc.		<u>\$ 115,602</u>						
Recognition of change in Sohu's economic interests in Changyou	125,375		0	100,552	0	0	0	24,823
Ending balance	<u>\$667,084</u>		<u>\$ 43</u>	<u>\$311,908</u>	<u>\$(74,683)</u>	<u>\$ 21,467</u>	<u>\$353,525</u>	<u>\$ 54,824</u>

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



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**1. The Company and Basis of Presentation*****Nature of Operations***

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

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

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

***Basis of Consolidation***

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

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

### ***Basis of Presentation***

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

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

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

## **2. Changyou Transactions**

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

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

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

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

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

Upon the completion of Changyou’s initial public offering in April 2009, vested Class B ordinary shares held by Prominence became entitled to participate in distributions on Changyou shares. Since the completion of the initial public offering, Class B restricted ordinary shares held by Prominence have continued, and will continue, to become vested from time to time in accordance with their terms.

### ***Changyou's 2008 Share Incentive Plan***

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

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

### ***Initial Public Offering of Changyou***

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

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

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

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

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

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

### ***Sohu's Shareholding in Changyou***

#### ***Shareholding and Control***

Through September 30, 2010, 1,220,000 Class B restricted share units granted to certain of Changyou's executive officers other than Tao Wang and to certain of its employees had become vested, and were settled in Class B ordinary shares and then converted into Class A ordinary shares; and 358,000 Class A restricted share units granted to certain of Changyou's executive officers other than Tao Wang and to certain of its employees had become vested, and were settled in Class A ordinary shares.

As of September 30, 2010, Changyou had outstanding a combined total of 104,078,000 Class A and Class B ordinary shares, consisting of (i) 70,250,000 Class B ordinary shares held by Sohu through Sohu Game; (ii) 14,400,000 Class B ordinary shares held by Tao Wang through Prominence, including 4,000,000 Class B restricted ordinary shares that were not vested; (iii) 17,850,000 Class A ordinary shares issued in Changyou's initial public offering; (iv) 1,220,000 Class A ordinary shares issued to certain of Changyou's executive officers other than Tao Wang and to certain of its employees upon conversion of Class B ordinary shares that had been issued upon the vesting and settlement of Class B restricted share units granted to them; and (v) 358,000 Class A ordinary shares issued to certain of Changyou's executive officers other than Tao Wang and to certain of its employees upon the vesting and settlement of Class A restricted share units granted to them.

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

#### *Economic Interest*

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

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

#### *Dilutive Impact*

Through September 30, 2010, under Changyou's 2008 Share Incentive Plan, Changyou has granted 11,000,000 Class B ordinary shares and 4,000,000 Class B restricted ordinary shares to Tao Wang through Prominence and 4,414,000 Class A and Class B restricted share units (settleable by Changyou's issuance of Class A ordinary shares and Class B ordinary shares, respectively) to certain of its executive officers other than Tao Wang and to certain of its employees. As of September 30, 2010, the number of Changyou's outstanding restricted share units decreased from 4,414,000 to 2,776,250, as a result of vesting and settlement or forfeitures of restricted share units.

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

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

### 3. Segment Information

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

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

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

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

	Three Months Ended September 30, 2010							
	Segments Other Than Online Game				Segments Other Than Online Game	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues (1)	\$ 61,597	\$ 5,367	\$ 13,593	\$ 398	\$ 80,955	\$ 85,624	\$ (2,515)	\$ 164,064
Segment cost of revenues	(22,234)	(3,802)	(7,381)	(199)	(33,616)	(8,497)	0	(42,113)
Segment gross profit	\$ 39,363	\$ 1,565	\$ 6,212	\$ 199	47,339	77,127	(2,515)	121,951
SBC (2) in cost of revenues					(1,023)	(40)	0	(1,063)
Gross profit					46,316	77,087	(2,515)	120,888
Operating expenses:								
Product development					(7,941)	(9,275)	0	(17,216)
Sales and marketing (1)					(16,951)	(9,703)	2,515	(24,139)
General and administrative					(5,721)	(2,909)	0	(8,630)
Amortization of intangible assets					(138)	(25)	0	(163)
SBC (2) in operating expenses					(3,749)	(1,749)	0	(5,498)
Total operating expenses					(34,500)	(23,661)	2,515	(55,646)
Operating profit					11,816	53,426	0	65,242
Other expense					(226)	(713)	0	(939)
Interest income and exchange difference					7	1,043	0	1,050
Income tax expense					(2,876)	(8,464)	0	(11,340)
Income from continuing operations					\$ 8,721	\$ 45,292	\$ 0	\$ 54,013

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

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

	Segments Other Than Online Game				Segments Other Than Online Game	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues (1)	\$ 52,082	\$ 2,292	\$16,788	\$ 319	\$ 71,481	\$ 68,684	\$ (3,580)	\$ 136,585
Segment cost of revenues (1)	(15,269)	(2,709)	(9,628)	(692)	(28,298)	(4,545)	1	(32,842)
Segment gross profit (loss)	\$ 36,813	\$ (417)	\$ 7,160	\$ (373)	43,183	64,139	(3,579)	103,743
SBC (2) in cost of revenues					(179)	(169)	0	(348)
Gross profit					43,004	63,970	(3,579)	103,395
Operating expenses:								
Product development					(7,425)	(4,902)	0	(12,327)
Sales and marketing (1)					(19,672)	(9,212)	3,579	(25,305)
General and administrative					(4,759)	(4,182)	0	(8,941)
Amortization of intangible assets					(92)	(1)	0	(93)
SBC (2) in operating expenses					(751)	(3,385)	0	(4,136)
Total operating expenses					(32,699)	(21,682)	3,579	(50,802)
Operating profit					10,305	42,288	0	52,593
Other income					6	34	0	40
Interest income and exchange difference					503	966	0	1,469
Income tax expense					(1,528)	(5,494)	0	(7,022)
Income from continuing operations					\$ 9,286	\$ 37,794	\$ 0	\$ 47,080

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

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

	Segments Other Than Online Game				Segments Other Than Online Game	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues (1)	\$ 159,865	\$ 12,092	\$ 37,954	\$ 2,396	\$ 212,307	\$ 235,417	\$ (8,109)	\$ 439,615
Segment cost of revenues	(59,602)	(10,220)	(20,102)	(874)	(90,798)	(20,779)	0	(111,577)
Segment gross profit	<u>\$ 100,263</u>	<u>\$ 1,872</u>	<u>\$ 17,852</u>	<u>\$ 1,522</u>	121,509	214,638	(8,109)	328,038
SBC (2) in cost of revenues					(3,196)	(150)	0	(3,346)
Gross profit					<u>118,313</u>	<u>214,488</u>	<u>(8,109)</u>	<u>324,692</u>
Operating expenses:								
Product development					(23,519)	(21,433)	0	(44,952)
Sales and marketing (1)					(51,726)	(31,006)	8,109	(74,623)
General and administrative					(13,968)	(10,025)	0	(23,993)
Amortization of intangible assets					(381)	(29)	0	(410)
SBC (2) in operating expenses					(9,607)	(6,589)	0	(16,196)
Total operating expenses					<u>(99,201)</u>	<u>(69,082)</u>	<u>8,109</u>	<u>(160,174)</u>
Operating profit					19,112	145,406	0	164,518
Other expense					(863)	(431)	0	(1,294)
Interest income and exchange difference					546	2,661	0	3,207
Income tax expense					(5,085)	(20,547)	0	(25,632)
Income from continuing operations					<u>\$ 13,710</u>	<u>\$ 127,089</u>	<u>\$ 0</u>	<u>\$ 140,799</u>

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

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

	Segments Other Than Online Game				Segments Other Than Online Game	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues (1)	\$ 148,385	\$ 5,623	\$ 45,117	\$ 584	\$ 199,709	\$ 196,887	\$ (17,188)	\$ 379,408
Segment cost of revenues (1)	(42,567)	(7,266)	(25,550)	(1,410)	(76,793)	(11,831)	12	(88,612)
Segment gross profit (loss)	<u>\$ 105,818</u>	<u>\$ (1,643)</u>	<u>\$ 19,567</u>	<u>\$ (826)</u>	122,916	185,056	(17,176)	290,796
SBC (2) in cost of revenues					(683)	(267)	0	(950)
Gross profit					<u>122,233</u>	<u>184,789</u>	<u>(17,176)</u>	<u>289,846</u>
Operating expenses:								
Product development					(20,884)	(14,821)	0	(35,705)

Sales and marketing (1)	(54,305)	(30,313)	17,176	(67,442)
General and administrative	(12,593)	(10,223)	0	(22,816)
Amortization of intangible assets	(292)	(3)	0	(295)
SBC (2) in operating expenses	(2,630)	(9,805)	0	(12,435)
Total operating expenses	(90,704)	(65,165)	17,176	(138,693)
Operating profit	31,529	119,624	0	151,153
Dividend income (3)	96,800	0	(96,800)	0
Other income	70	33	0	103
Interest income and exchange difference	1,352	2,513	0	3,865
Income tax expense	(5,233)	(16,344)	0	(21,577)
Income from continuing operations	<u>\$124,518</u>	<u>\$105,826</u>	<u>\$(96,800)</u>	<u>\$ 133,544</u>

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

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

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

	As of September 30, 2010			
	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Cash and cash equivalents (1)	\$ 242,636	\$292,026	\$ 0	\$ 534,662
Accounts receivable, net	67,607	2,495	0	70,102
Fixed assets, net	65,366	53,841	0	119,207
Total assets (2)	606,962	445,886	(6,227)	1,046,621

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

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

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



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

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

#### 4. Share-Based Compensation Expense

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenues	\$ 1,063	\$ 348	\$ 3,346	\$ 950
Product development expenses	2,238	2,204	6,901	6,777
Sales and marketing expenses	1,271	152	3,402	651
General and administrative expenses	1,989	1,780	5,893	5,007
	<u>\$ 6,561</u>	<u>\$ 4,484</u>	<u>\$ 19,542</u>	<u>\$ 13,385</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Share-based compensation expense</b>				
For share-based awards granted by Sohu.com Inc.	\$ 4,806	\$ 960	\$ 12,889	\$ 3,530
For share-based awards granted by Changyou.com Limited	1,755	3,524	6,653	9,855
	<u>\$ 6,561</u>	<u>\$ 4,484</u>	<u>\$ 19,542</u>	<u>\$ 13,385</u>

#### 5. Income Taxes

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

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

### ***PRC Corporate Income Tax***

#### ***Advertising Business and Wireless Business***

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

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

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

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

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

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

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

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

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

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

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

#### *Related to PRC Corporate Income Tax*

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

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

#### *Related to U.S. Corporate Income Tax*

The U.S. Congress currently is considering legislation that, if enacted in its current form, would retroactively reinstate certain favorable provisions that expired on January 1, 2010. This legislation was not enacted prior to the issuance of the Company's financial statements for the three and nine months ended September 30, 2010. If the expired favorable tax provisions are reinstated retroactively to January 1, 2010, the following amounts will be reversed on the Company's financial statements in the period in which such legislation is enacted. For the three and nine months ended September 30, 2010, the Company has recognized a \$0.29 million and a \$0.92 million, respectively, income tax expense in its financial statements, because the above legislation has not been enacted. The accrual of this tax liability would cause a cash payment by the Company to the U.S. taxing authorities of \$0.02 million and \$0.05 million, respectively, based on the utilization of existing U.S. federal net operating losses generated from excess tax deductions related to share-based awards of \$0.27 million and \$0.87 million, respectively, for the three and nine months ended September 30, 2010. These excess tax deductions were treated under U.S. GAAP as an increase in shareholders' equity.

## **6. Commitments and Contingencies**

### ***Contractual Obligation***

On November 20, 2009, the Company entered into an agreement to purchase an office building to be built in Beijing, which will serve as the Company's headquarters, for a purchase price of approximately \$110 million denominated in RMB. On August 20, 2010, the purchase price was adjusted to \$120 million to cover additional purchased floor area. As of September 30, 2010, \$66 million had been paid and was recognized as prepaid non-current assets in the Company's consolidated financial statements. The remaining \$54 million payment will be settled in installments as various stages of the development plan are completed. Construction is expected to be completed by the end of 2012.

On August 23, 2010, Changyou entered into an agreement to purchase an office building to be built in Beijing, which will serve as its headquarters, for a purchase price of approximately \$146 million denominated in RMB. As of September 30, 2010, \$59 million had been paid and was recognized as prepaid non-current assets in the Company's consolidated financial statements. The remaining \$87 million payment will be settled in installments as various stages of the development plan are completed. Construction is expected to be completed by the end of 2012.

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

### ***Litigation***

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

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

### ***Laws and Regulations***

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

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

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

## 7. Financial Instruments

### *Fair Value of Financial Instruments*

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

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

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

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

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company's cash and cash equivalents are classified within Level 2 as they are valued using market observable inputs. The Company's investment in debt securities is classified within Level 3 as it is valued considering the estimated future return from the investment. No gain or loss arising from the investment in debt securities was recognized during the period ended September 30, 2010.

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of September 30, 2010 (in thousands):

Items	As of September 30, 2010	Fair value measurement 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 and cash equivalents:				
Time deposits	\$ 267,705	\$ 0	\$ 267,705	\$ 0
Investment in debt securities	74,615	0	0	74,615
Total	<u>\$ 342,320</u>	<u>\$ 0</u>	<u>\$ 267,705</u>	<u>\$ 74,615</u>

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2009 (in thousands):

Items	Fair value measurement at reporting date using			
	As of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents:				
Time deposits	\$ 308,870	\$ 0	\$ 308,870	\$ 0
Investment in debt securities	0	0	0	0
Total	\$ 308,870	\$ 0	\$ 308,870	\$ 0

#### **Investment in debt securities**

In September 2010, the Company purchased from a PRC-based company (the “Debtor”) for \$74.6 million (equal to RMB 0.5 billion) a convertible debt security with an initial maturity of twelve months, subject to extension at the Company’s election in its sole discretion for additional sequential six-month periods, and bearing interest at the rate of 3.8% per annum, payable quarterly in cash. The Debtor’s obligations on the debt are secured by a pledge from the Debtor’s parent company of its entire equity interest in the Debtor. Under the terms of the security, if the Company continues to extend the maturity to March 31, 2014, it will have an option, exercisable on March 31, 2014, to convert the outstanding principal into fixed percentages of equity interest in two companies which are affiliates of the Debtor.

#### **Concentration of Risk**

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

#### **8. Variable Interest Entities**

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

#### **Consolidated VIEs within the Sohu Group**

The consolidated VIEs are directly or indirectly owned by Dr. Charles Zhang (“Dr. Zhang”), the Company’s Chairman, Chief Executive Officer and a major shareholder, and certain executive officer and employees of the Sohu Group. Capital for these VIEs was funded by the Sohu Group through loans provided to Dr. Zhang and those executive officer and employees, and was initially recorded as loans to related parties. These loans are eliminated for accounting purposes against the capital of the VIEs upon consolidation.

Under contractual agreements with the Sohu Group, Dr. Zhang and those executive officer and employees of the Sohu Group who are shareholders of the VIEs are required to transfer their ownership in these entities to the Sohu Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Sohu Group at any time to repay the loans outstanding. All voting rights of the VIEs are assigned to the Sohu Group, and the Sohu Group has the right to designate all directors and senior management personnel of the VIEs, also has the obligation to absorb losses of the VIEs. Dr. Zhang and those executive officer and employees of the Sohu Group who are shareholders of the VIEs have pledged their shares in the VIEs as collateral for the loans. As of September 30, 2010, the aggregate amount of these loans was \$13.5 million.

As of September 30, 2010, the total assets for the consolidated VIEs were \$124.1 million, mainly comprising cash and cash equivalents, accounts receivable and fixed assets. As of September 30, 2010, the total liabilities for the consolidated VIEs were \$60.3 million, mainly comprising accrued salary and benefits and tax payables. These balances are reflected in Sohu's consolidated financial statements with intercompany transactions eliminated.

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

*For Advertising Business*

Brand Advertising Business

a) Sohu Entertainment

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

b) Donglin

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

c) Pilot New Era

Beijing Pilot New Era Advertising Co., Ltd. ("Pilot New Era") was incorporated in the PRC in 2010 and is engaged in advertising services in the PRC. As of September 30, 2010, the registered capital of Pilot New Era was \$0.7 million. High Century and Sohu Internet each holds a 50% interest in this entity.

Sponsored Search Business

d) Tu Xing Tian Xia

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

e) Sogou Information

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

*For Online Game Business*

f) Gamease

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

g) Shanghai ICE

Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE") was incorporated in the PRC in April 2005. Shanghai ICE's primary beneficiary is ICE Information Technology (Shanghai) Co., Ltd. ("ICE WFOE"), which is an indirect subsidiary of Changyou and Sohu. Shanghai ICE and ICE WFOE were acquired by Changyou in May 2010. As of September 30, 2010, the registered capital of Shanghai ICE was \$1.2 million. Two employees of Changyou each hold a 50% interest in this entity.

h) Guanyou Gamespace

Guanyou Gamespace was incorporated in the PRC in August 2010. Guanyou Gamespace's primary beneficiary is Beijing Changyou Gamespace Software Technology Co., Ltd., which is an indirect subsidiary of Changyou and Sohu. As of September 30, 2010, the registered capital of Guanyou Gamespace was \$1.5 million. Tao Wang, Chief Executive Officer of Changyou, and Dewen Chen, President and Chief Operating Officer of Changyou hold 60% and 40% interests, respectively, in this entity.

*For Wireless and Others Businesses*

i) Sohu Internet

Sohu Internet was incorporated in the PRC in 2003 and is engaged in Internet information, wireless and advertising services in the PRC. As of September 30, 2010, the registered capital of Sohu Internet was \$14.9 million. High Century and Sohu Entertainment hold 75% and 25% interests, respectively, in this entity.

j) GoodFeel

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

k) High Century

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

l) 21 East Beijing

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



m) New 21 East

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

***VIE Not Consolidated within the Sohu Group***

In the second quarter of 2010, in order to diversify Changyou’s marketing channels for its games and also as a strategic investment, Changyou acquired a 50% equity interest in a company. Although this company is a VIE, Changyou is not the primary beneficiary because Changyou is not able to direct the activities of the VIE, and therefore Changyou does not consolidate the company. The investment is being accounted for under the equity method of accounting. As of September 30, 2010, Changyou’s maximum exposure to loss as a result of its involvement with the investee is \$8.8 million, which includes Changyou’s original investment of \$3.9 million and funds provided for the investee’s working capital needs recognized as prepaid and other current assets in the Company’s consolidated financial statements amounting to \$4.9 million.

**9. Sohu.com Inc. Shareholders’ Equity**

***(a) Stockholder Rights Plan***

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

***(b) Treasury Stock***

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

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

***(c) Stock Incentive Plan***

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

1) Sohu.com Inc. Share-based Awards

Sohu's 2000 Stock Incentive Plan

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

For the three and nine months ended September 30, 2010, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$4.8 million and \$12.9 million, respectively. For the three and nine months ended September 30, 2009, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$1.0 million and \$3.5 million, respectively.

i) Summary of share option activity

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

<u>Options</u>	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (1) (in thousands)</u>
Outstanding at January 1, 2010	555	\$ 16.55	4.54	\$ 22,625
Exercised	(61)	15.84		
Forfeited or expired	0			
Outstanding at September 30, 2010	<u>494</u>	16.63	3.81	20,244
Vested at September 30, 2010	<u>494</u>	16.63	3.81	20,244
Exercisable at September 30, 2010	<u>494</u>	16.63	3.81	20,244

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sohu's closing stock price of \$57.62 on September 30, 2010 and the exercise price of share options. The total intrinsic value of share options exercised for the nine months ended September 30, 2010 was \$2.2 million.

For the three and nine months ended September 30, 2010, no compensation expense was recognized for share options because the requisite service periods for share options had ended by the end of 2009. For the three and nine months ended September 30, 2009, total share-based compensation expense recognized for share options was \$0.3 million and \$0.9 million, respectively.

For the three and nine months ended September 30, 2010, total cash received from the exercise of share options amounted to \$0.6 million and \$1.0 million, respectively. For the three and nine months ended September 30, 2009, total cash received from the exercise of share options amounted to \$0.8 million and \$3.8 million, respectively.

ii) Summary of restricted share unit activity

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

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	209	\$ 33.41
Granted	731	61.23
Vested	(115)	30.83
Forfeited	(72)	57.02
Unvested at September 30, 2010	<u>753</u>	<u>58.56</u>
Expected to vest thereafter	<u>616</u>	55.83

For the three and nine months ended September 30, 2010, total share-based compensation expense recognized for restricted share units was \$4.8 million and \$12.9 million, respectively. For the three and nine months ended September 30, 2009, total share-based compensation expense recognized for restricted share units was \$0.7 million and \$2.7 million, respectively.

As of September 30, 2010, there was \$20.4 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 1.2 years.

#### Sohu's 2010 Stock Incentive Plan

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

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

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

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

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

For the three and nine months ended September 30, 2010, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$1.8 million and \$6.7 million, respectively. For the three and nine months ended September 30, 2009, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$3.5 million and \$9.9 million, respectively.

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

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

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

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

On March 16, 2009, the ordinary shares described above, which had been issued as 700,000 Class B ordinary shares and 800,000 Class B restricted ordinary shares in January 2009 and had become 900,000 Class B ordinary shares and 600,000 Class B restricted ordinary shares in February 2009 as a result of vesting, became 9,000,000 Class B ordinary shares and 6,000,000 Class B restricted ordinary shares, respectively, as a result of a ten-for-one share split effected by Changyou on that date.

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

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

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

For the three and nine months ended September 30, 2010, share-based compensation expense recognized for the above-mentioned Class B restricted ordinary shares was \$0.3 million and \$0.9 million, respectively. For the three and nine months ended September 30, 2009, share-based compensation expense recognized for the Class B restricted ordinary shares was \$0.5 million and \$1.8 million, respectively.

As of September 30, 2010, there was \$0.8 million of unrecognized compensation expense related to the unvested Class B restricted ordinary shares.

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

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

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

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

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

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

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

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

For the three and nine months ended September 30, 2010, total share-based compensation expense recognized for the above 2,740,000 Class B restricted share units was \$0.2 million and \$0.7 million, respectively. For the three and nine months ended September 30, 2009, total share-based compensation expense recognized for this 2,740,000 Class B restricted share units was \$0.6 million and \$3.7 million, respectively.

As of September 30, 2010, there was \$0.6 million of unrecognized share-based compensation expense related to the unvested Class B restricted share units.

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

iii) Share-based Awards to Other Employees

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

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

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

<u>Class A Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	432	\$ 8.00
Granted	0	
Vested	(108)	8.00
Forfeited	(34)	8.00
Unvested at September 30, 2010	<u>290</u>	<u>8.00</u>
Expected to vest thereafter	<u>261</u>	8.00

For the three and nine months ended September 30, 2010, total share-based compensation expense recognized for the above 456,000 Class A restricted share units was \$0.2 million and \$0.8 million, respectively. For the three and nine months ended September 30, 2009, total share-based compensation expense recognized for this 456,000 Class A restricted share units was \$0.4 million and \$1.0 million, respectively.

As of September 30, 2010, there was \$1.1 million of unrecognized share-based compensation expense related to the unvested Class A restricted share units.

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

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

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

<u>Class A Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2010	1,200	\$ 12.41
Granted	18	16.91
Vested	(300)	12.41
Forfeited	(2)	17.08
Unvested at September 30, 2010	916	12.49
Expected to vest thereafter	914	12.48

For the three and nine months ended September 30, 2010, total share-based compensation expense recognized for the above 1,218,000 Class A restricted share units was \$1.1 million and \$4.2 million, respectively. For the three and nine months ended September 30, 2009, total share-based compensation expense recognized for this 1,218,000 Class A restricted share units was \$2.0 million and \$3.4 million, respectively.

As of September 30, 2010, there was \$5.5 million of unrecognized compensation expense related to the unvested Class A restricted share units.

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

**10. Noncontrolling Interest**

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

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

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

As of September 30, 2010 and December 31, 2009, noncontrolling interest in the consolidated balance sheets was \$113.8 million and \$68.0 million, respectively.

	As of	
	September 30, 2010 (in thousands)	December 31, 2009 (in thousands)
Changyou	\$ 113,555	\$ 67,691
21 East	262	304
<b>Total</b>	<b>\$ 113,817</b>	<b>\$ 67,995</b>

As of September 30, 2010 and December 31, 2009, \$113.6 million and \$67.7 million, respectively, noncontrolling interest was recognized in Sohu's consolidated balance sheets, representing a 29% and a 26%, respectively, economic interest in Changyou's net assets and reflected the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest, as discussed in Note 1- The Company and Basis of Presentation—Basis of Consolidation.

#### **Noncontrolling Interest in the Consolidated Statements of Operations**

For the three and nine months ended September 30, 2010, noncontrolling interest in the consolidated statements of operations was \$13.0 million and \$36.1 million, compared with \$9.7 million and \$18.5 million for the three and nine months ended September 30, 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Changyou	\$12,999	\$9,751	\$36,194	\$18,590
21 East	5	(25)	(48)	(84)
<b>Total</b>	<b>\$13,004</b>	<b>\$9,726</b>	<b>\$36,146</b>	<b>\$18,506</b>

For the three months ended September 30, 2010 and 2009, \$13.0 million and \$9.8 million, respectively, noncontrolling interest was recognized in Sohu's consolidated statements of operations, representing a 29% and a 26%, respectively, economic interest in Changyou attributable to shareholders other than Sohu.

#### **11. Net Income per Share**

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

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

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



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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Numerator:</b>				
Net income from continuing operations attributable to Sohu.com Inc.	\$41,009	\$37,354	\$104,653	\$115,038
Gain from discontinued e-commerce operations attributable to Sohu.com Inc.	0	0	0	446
Net income attributable to Sohu.com Inc., basic	41,009	37,354	104,653	115,484
<b>Effect of dilutive securities:</b>				
Incremental dilution from Changyou	(2,355)	(2,949)	(6,807)	(5,608)
Net income attributable to Sohu.com Inc., diluted	<u>\$38,654</u>	<u>\$34,405</u>	<u>\$ 97,846</u>	<u>\$109,876</u>
<b>Denominator:</b>				
Weighted average basic common shares outstanding	37,896	38,410	37,832	38,286
<b>Effect of dilutive securities:</b>				
Share options and restricted share units	481	672	538	699
Weighted average diluted common shares outstanding	<u>38,377</u>	<u>39,082</u>	<u>38,370</u>	<u>38,985</u>
<b>Basic net income per share attributable to Sohu.com Inc.</b>				
—Continuing operations	\$ 1.08	\$ 0.97	\$ 2.77	\$ 3.01
—Discontinued e-commerce operations	0.00	0.00	0.00	0.01
Basic net income per share attributable to Sohu.com Inc.	<u>\$ 1.08</u>	<u>\$ 0.97</u>	<u>\$ 2.77</u>	<u>\$ 3.02</u>
<b>Diluted net income per share attributable to Sohu.com Inc.</b>				
—Continuing operations	\$ 1.01	\$ 0.88	\$ 2.55	\$ 2.81
—Discontinued e-commerce operations	0.00	0.00	0.00	0.01
Diluted net income per share attributable to Sohu.com Inc.	<u>\$ 1.01</u>	<u>\$ 0.88</u>	<u>\$ 2.55</u>	<u>\$ 2.82</u>

## 12. Subsequent Events

On October 22, 2010, the Company's online search subsidiary Sogou Inc. ("Sogou") completed the sale of newly-issued Series A Preferred Shares to Alibaba Investment Limited, a private investment subsidiary of Alibaba Group Holding Limited, China Web Search (HK) Limited, an investment vehicle of Yunfeng Fund, LP, and Photon Group Limited, the investment fund of the Company's Chairman and Chief Executive Officer Dr. Charles Zhang, for \$15 million, \$9 million, and \$24 million, respectively, that represent approximately 10%, 6% and 16%, respectively, of the outstanding share capital of Sogou on a fully-diluted basis. Sohu and Sogou have established a share incentive program for Sogou management and key employees as well as certain members of Sohu's executive management. Sohu will retain approximately 53% of Sogou on a fully-diluted basis, and intends in any event to retain a majority of the outstanding share capital of Sogou on a fully-diluted basis. After the sale of newly-issued Series A Preferred Shares, Sohu will continue to consolidate Sogou in Sohu's consolidated financial statements, as Sohu is Sogou's controlling shareholder, but will recognize noncontrolling interest reflecting shares held by shareholders other than Sohu.

### 13. Recently Issued Accounting Pronouncements

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

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

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

## OVERVIEW

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

### Our Business

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

Starting from 2003, our online game business has developed from nascency to become one of the top massively multi-player online role-playing game (“MMORPG”) operators in China. Its success was further endorsed by the carve-out and initial public offering of our MMORPG subsidiary Changyou (NASDAQ: CYOU) in April 2009. The successful initial public offering has provided Changyou with the platform and resources to become a leading company in the MMORPG industry, and has enabled Changyou to compete head to head with first tier players. As Changyou’s controlling shareholder, Sohu continues to consolidate Changyou but recognizes noncontrolling interest reflecting shares held by shareholders other than Sohu. During the third quarter of 2010, treating all existing restricted shares as vested and restricted share units as vested and settled, Sohu owned approximately 66% of the economic interest in Changyou, with the remaining 34% of the economic interest in Changyou owned by Changyou’s shareholders other than Sohu.

### Advertising Business

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

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

### Brand Advertising Services

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

### *Sponsored Search Services*

We restructured our sponsored search business in preparation for the sale by our online search subsidiary Sogou Inc. (“Sogou”) of newly-issued Series A Preferred Shares to Alibaba Investment Limited (“Alibaba”), a private investment subsidiary of Alibaba Group Holding Limited, China Web Search (HK) Limited (“China Web”), an investment vehicle of Yunfeng Fund, LP, and Photon Group Limited (“Photon”), the investment fund of Sohu’s Chairman and Chief Executive Officer Dr. Charles Zhang. In the restructuring, we transferred to Sogou certain assets and liabilities associated with Sogou Pinyin and Sogou Browser, and transferred to Sohu certain non-search assets and liabilities that had been held by Sogou. Sogou will remain liable for a loan payable to Sohu in the amount of \$45 million, which will be payable solely from the proceeds of an initial public offering by Sogou. The loan amount consists primarily of losses historically incurred in our search business and previously funded by Sohu.

Following the closing, completed on October 22, 2010, of the sale of Series A Preferred Shares by Sogou, Alibaba, China Web and Photon hold approximately 10%, 6% and 16%, respectively, of the outstanding share capital of Sogou on a fully-diluted basis. Sohu and Sogou have established a share incentive program for Sogou management and key employees as well as certain members of Sohu’s executive management. Sohu will retain approximately 53% of Sogou on a fully-diluted basis, and intends in any event to retain a majority of the outstanding share capital of Sogou on a fully-diluted basis. As Sogou’s controlling shareholder, Sohu will continue to consolidate Sogou but will recognize noncontrolling interest reflecting shares held by shareholders other than Sohu. We believe that the introduction of strategic investors to our Sogou search business leaves our search business in a more competitive position and offers promise for future collaboration and services with China’s largest e-commerce website.

### **Online Game Business**

Our online game business is conducted through Sohu’s majority-owned subsidiary Changyou. Changyou is a leading online game developer and operator in China as measured by the popularity of one of its games, Tian Long Ba Bu (“TLBB”). TLBB, which was launched in May 2007, was ranked by International Data Corporation (“IDC”) in 2008 as the fourth most popular online game overall in China and the second most popular online game in China among locally-developed online games. Changyou engages in the development, operation and licensing of MMORPGs, which are interactive online games that may be played simultaneously by hundreds of thousands of game players. Changyou currently operates six MMORPGs, in-house developed TLBB, and licensed Blade Online (“BO”), Blade Hero 2 (“BH 2”), Da Hua Shui Hu (“DHS”)”, Zhong Hua Ying Xiong (“ZHYX”) and Immortal Faith (“IF”) from third parties. As of September 30, 2010, these games had approximately 105.2 million aggregate registered accounts. For the three months ended September 30, 2010, these games had approximately 2.6 million aggregate active paying accounts, average revenue per active paying account of Renminbi (“RMB”)214, 1.0 million aggregate peak concurrent users (“PCU”) for Changyou’s games in China.

Changyou has a diversified pipeline of games with various graphic styles, themes and features to appeal to different segments of the online game player community, including in-house developed Duke of Mount Deer (“DMD”), which received an award as one of China’s most anticipated online games.

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

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

### ***Agreements between Sohu and Changyou***

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

### ***Wireless and Others Businesses***

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

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

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

### **Revenue Recognition**

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

### ***Advertising Revenues***

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

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

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

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

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

#### *Sponsored Search Revenues*

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

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

#### **Online Game Revenues**

##### *Game Operation Revenues*

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

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

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

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

#### *Overseas Licensing Revenues*

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

#### *Wireless and Others Revenues*

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

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



Wireless service fees are charged on a monthly or per message/download basis. Due to technical issues with the operator's network, we might be unable to collect certain wireless service fees from an operator in certain circumstances. This un-collectability is referred to as the "failure rate," which can vary from operator to operator. Wireless revenues are recognized in the month in which the service is performed, provided that no significant obligations remain. To recognize wireless revenue, we rely on China mobile network operators to provide us billing confirmations for the actual amount of services they have billed to their mobile customers. At the end of each reporting period, when an operator has not yet provided us monthly billing confirmations for the period, we use information generated from our internal system as well as historical data to estimate the failure rate, to estimate the amount of collectable wireless service fees and to recognize revenue. When we later receive the actual billing confirmation, we then record a true-up accounting adjustment. Although we believe we have the ability to make reasonable estimates, differences between the actual facts and our estimates may result in significant fluctuations in the amount and timing of the revenue recognized. Since 2002 when wireless revenues began representing a significant portion of our total revenues, the quarterly historical differences in our estimated revenue which was recorded in the financial statements compared to the actual revenue have ranged from an underestimation of \$1,419,000 (gross margin underestimate of \$654,000) to an overestimation of \$340,000 (gross margin overestimate of \$171,000). For the three months ended September 30, 2010, 85% of our estimated wireless revenues were confirmed by the monthly billing confirmations received from the mobile network operators. Generally, (i) within 15 to 120 days after the end of each month, we receive billing confirmations from each of the operators confirming the amount of wireless service charges billed to that operator's mobile phone users and (ii) within 30 to 180 days after delivering billing confirmations, each operator remits the wireless service fees, net of its service fees, for the month to us.

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

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

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

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

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

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

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

## **Income Taxes and Uncertain Tax Positions**

### ***Income Taxes***

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

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

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

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

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

### **Noncontrolling Interest**

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

### **Net Income per Share**

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

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

### **Allowance for Doubtful Accounts Receivable**

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

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

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

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

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

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

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

**Investment in debt securities**

We invest our excess cash in certain debt securities of high-quality corporate issuers. Our debt securities are classified as available-for-sale and are reported at fair market values. Unrealized gains or losses, if any, will be recorded as accumulated other comprehensive income/loss in shareholders' equity. We periodically review our debt securities and assesses whether an impairment loss other-than-temporary has occurred due to declines in fair value or other market conditions. If any impairment is considered other-than-temporary, we will write down the asset to its fair value and take a corresponding charge to our Consolidated Statement of Operations.

**VIE Consolidation**

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

**Long-Lived Assets**

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

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

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

Prepaid non-current assets primarily include prepayments for the office buildings to be built as Sohu's and Changyou's headquarters before they were recognized as fixed assets; also included are prepaid content fees, prepaid license fees and rental deposits. We amortize the content fees and license fees over the terms of the related contracts.

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

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

## **Goodwill**

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

## **Functional Currency and Foreign Currency Translation**

### ***Functional Currency***

An entity's functional currency is the currency of the primary economic environment in which it operates; normally that is the currency of the environment in which it primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. The functional currency of Sohu.com Inc. is the U.S. dollar. The functional currency of our subsidiaries and VIEs in the PRC (except for Wuxi Sohu New Momentum, a PRC subsidiary set up in May 2010), the United Kingdom, Malaysia, Korea and Vietnam, respectively, are the RMB, British Pound, Malaysian Ringgit, Korean Won and Vietnam Dong, respectively. Wuxi Sohu New Momentum's functional currency is the U.S. dollar. The functional currency of our subsidiaries in the U.S. and Hong Kong is the U.S. dollar.

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

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

## **RESULTS OF OPERATIONS**

### **FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**

#### **REVENUES**

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

	Three Months Ended September 30,			Nine Months Ended September 30,						
	2010		2009	2010 vs 2009	2010	2009	2010 vs 2009			
<b>Revenues</b>										
Advertising:										
Brand advertising	\$ 59,083	36%	\$ 48,502	35%	\$10,581	\$151,757	35%	\$131,197	35%	\$20,560
Sponsored search	5,367	3%	2,292	2%	3,075	12,092	3%	5,623	1%	6,469
Subtotal of advertising revenues	64,450		50,794		13,656	163,849		136,820		27,029
Online game	85,623	52%	68,684	50%	16,939	235,416	54%	196,887	52%	38,529
Wireless and others	13,991	9%	17,107	13%	(3,116)	40,350	8%	45,701	12%	(5,351)
Total revenues	\$164,064	100%	\$136,585	100%	\$27,479	\$439,615	100%	\$379,408	100%	\$60,207

Total revenues were \$164.1 million and \$439.6 million, respectively, for the three and nine months ended September 30, 2010, as compared to \$136.6 million and \$379.4 million, respectively, for the corresponding periods in 2009. The increase in total revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$27.5 million, and the increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$60.2 million. The increase was mainly attributable to online game revenues and brand advertising revenues.

#### Advertising Revenues

Advertising revenues were \$64.5 million and \$163.8 million, respectively, for the three and nine months ended September 30, 2010, as compared to \$50.8 million and \$136.8 million, respectively, for the corresponding periods in 2009. The increase in advertising revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$13.7 million, and the increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$27.0 million. The increase was mainly attributable to brand advertising revenues.

#### Brand Advertising Revenues

Brand advertising revenues were \$59.1 million and \$151.8 million, respectively, for the three and nine months ended September 30, 2010, respectively, compared to \$48.5 million and \$131.2 million, respectively, for the corresponding periods in 2009. The increase in brand advertising revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$10.6 million, and the increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$20.6 million. The increase was mainly attributable to increased advertising resulting from our customers' reception of our enhanced video content.

We expect brand advertising revenues to be flat or decrease slightly in the fourth quarter of 2010, compared to the third quarter of 2010.

#### Sponsored Search Revenues

Sponsored search services primarily include priority placements in our search directory and pay-for-click services. Revenues from pay-for-click services accounted for approximately 86% and 82%, respectively, of the total sponsored search revenues for the three and nine months ended September 30, 2010, compared to 82% and 73%, respectively, in the corresponding periods in 2009.

Sponsored search revenues were \$5.4 million and \$12.1 million, respectively, for the three and nine months ended September 30, 2010, compared to \$2.3 million and \$5.6 million, respectively, for the corresponding periods in 2009. The increase in sponsored search revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$3.1 million, the increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$6.5 million. The increase mainly arose from pay-for-click services.

We expect sponsored search revenues to increase in the fourth quarter of 2010, compared to the third quarter of 2010, but do not expect them to represent a significant percentage of our total advertising revenues.

### **Online Game Revenues**

Online game revenues were \$85.6 million and \$235.4 million, respectively, for the three and nine months ended September 30, 2010, compared to \$68.7 million and \$196.9 million, respectively, for the corresponding periods in 2009. The increase in online game revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$16.9 million, and the increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$38.5 million. The increase was mainly due to increased popularity of our flagship game, TLBB, which we launched in May 2007.

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

### *Revenue Sources*

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>	<u>2009</u>	<u>September 30,</u>	<u>2009</u>
<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Online game revenues:				
Game operations revenues	\$83,627	\$66,880	\$229,401	\$191,162
Overseas licensing revenues	1,996	1,804	6,015	5,725
Total online game revenues	<u>\$85,623</u>	<u>\$68,684</u>	<u>\$235,416</u>	<u>\$196,887</u>

### Game Operations Revenues

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

### Overseas Licensing Revenues

We began licensing our game TLBB to operators outside of China in 2007. As of September 30, 2010, we have launched TLBB in Vietnam, Taiwan, Hong Kong, Malaysia, Singapore and Thailand. Under our licensing arrangements, the licensee operators pay us an initial license fee and ongoing royalties based on a percentage of revenues generated by them over the term of the license period.

## *Revenue Collection*

### *Game Operations*

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

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

### *Overseas Licensing*

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

## *Revenue Recognition*

### *Game Operations*

Proceeds received from sales of prepaid game cards form the basis of our revenues and are recorded initially as receipts in advance. Upon activation of the prepaid game cards, proceeds are transferred from receipts in advance to deferred revenues. Proceeds received from online sales of game points directly to game players are recorded as deferred revenues. As of September 30, 2010, we had receipts in advance from distributors and deferred revenues from our game operations of \$37.2 million, compared to \$29.6 million as of December 31, 2009.

We recognize revenues when virtual items purchased by game players are consumed. For consumable virtual items, including those with a predetermined expiration time, revenues are recognized as they are consumed, and for perpetual virtual items, revenues are recognized over their estimated lives. In addition, prepaid game cards will expire two years after the date of card production if they have never been activated. The proceeds from the expired game cards are recognized as revenues upon expiration of the cards. In contrast, once the prepaid game cards are activated and credited to a game player's account, they will not expire as long as the game account remains active. We are entitled to close a game player's account if it has been inactive for a period of 180 consecutive days. The unused balances in an inactive game player's account are recognized as revenues when the account is closed. For the three and nine months ended September 30, 2010, revenue from expired game cards and inactive game players' accounts was \$0.2 million and \$0.5 million, respectively.



### Overseas Licensing

For the initial license fees receivable under our overseas licensing agreements, we recognize revenues ratably over the remaining license period, during which we are obligated to provide post-sales services such as technical support and provision of updates or upgrades to the licensed games. Unrecognized initial license fees received are recorded as deferred revenues. As of September 30, 2010, such deferred revenues were \$0.8 million, compared to \$0.7 million as of December 31, 2009. With respect to ongoing revenue-based royalties, we recognize revenues when the revenue-based royalties are earned under the terms of the overseas licensing agreements, and the collection of such royalties is probable.

### **Wireless and Others Revenues**

#### *Wireless Revenues*

Wireless revenues were \$13.6 million and \$38.0 million, respectively, for the three and nine months ended September 30, 2010, compared to \$16.8 million and \$45.1 million, respectively, for the corresponding periods in 2009.

We expect wireless revenues to be flat in the fourth quarter of 2010 compared to the third quarter of 2010.

#### *Revenues for Other Services*

Other services mainly consist of sales of software to third parties, provision of applications service provider (“ASP”) services, and Websites construction and maintenance. Revenues for other services were \$398,000 and \$2.4 million, respectively, for the three and nine months ended September 30, 2010, compared to \$319,000 and \$584,000, respectively, for the corresponding periods in 2009.

### **COSTS AND EXPENSES**

#### **Cost of Revenues**

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

	<u>Three Months Ended September 30,</u>			<u>Nine Months Ended September 30,</u>						
	<u>2010</u>	<u>2009</u>	<u>2010 vs 2009</u>	<u>2010</u>	<u>2009</u>	<u>2010 vs 2009</u>				
Cost of revenues										
Advertising:										
Brand advertising	\$23,256	54%	\$15,418	47%	\$ 7,838	\$ 62,795	55%	\$43,213	48%	\$19,582
Sponsored search	3,803	9%	2,728	8%	1,075	10,223	9%	7,291	8%	2,932
Subtotal of cost of advertising revenues	<u>27,059</u>		<u>18,146</u>		<u>8,913</u>	<u>73,018</u>		<u>50,504</u>		<u>22,514</u>
Online game	8,537	20%	4,713	14%	3,824	20,929	18%	12,086	14%	8,843
Wireless and others	7,580	17%	10,331	31%	(2,751)	20,976	18%	26,972	30%	(5,996)
Total cost of revenues	<u>\$43,176</u>	100%	<u>\$33,190</u>	100%	<u>\$ 9,986</u>	<u>\$114,923</u>	100%	<u>\$89,562</u>	100%	<u>\$25,361</u>

Total cost of revenues was \$43.2 million and \$114.9 million, respectively, for the three and nine months ended September 30, 2010, compared to \$33.2 million and \$89.6 million, respectively, for the corresponding periods in 2009. The increase in cost of revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$10.0 million, and the increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$25.4 million. The increase was mainly attributable to increased cost of brand advertising revenues and increased cost of online game revenues.

#### *Cost of Advertising Revenues*

Cost of advertising revenues was \$27.1 million and \$73.0 million, respectively, for the three and nine months ended September 30, 2010, compared to \$18.1 million and \$50.5 million, respectively, for the corresponding periods in 2009. The increase in cost of advertising revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$8.9 million, and the increase from nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$22.5 million. The increase was mainly due to increased cost of brand advertising revenues.

#### Cost of Brand Advertising Revenues

Cost of brand advertising revenues includes salary and benefits expenses, depreciation expenses, content and license costs, bandwidth leasing costs, and revenue sharing payments to third parties.

The cost of brand advertising revenue was \$23.3 million and \$62.8 million, respectively, for the three and nine months ended September 30, 2010, compared to \$15.4 million and \$43.2 million, respectively, for corresponding periods in 2009.

The increase in cost of brand advertising revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$7.8 million. The increase was primarily attributable to investment in Sohu's video site, mainly consisting of a \$3.2 million increase in bandwidth leasing costs and a \$3.0 million increase in content and license costs. In addition, the increase included a \$0.9 million increase in share-based compensation expense and a \$0.5 million increase in salary and benefits expenses.

The increase in cost of brand advertising revenues from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$19.6 million. The increase was primarily attributable to investment in Sohu's video site, mainly consisted of a \$7.2 million increase in bandwidth leasing costs and a \$6.8 million increase in content and license costs. In addition, the increase consisted of a \$2.5 million increase in share-based compensation expense, and a \$1.7 million increase in salary and benefits expenses.

Our brand advertising gross margins for the three and nine months ended September 30, 2010 were 61% and 59%, respectively, as compared to 68% and 67%, respectively, for the corresponding periods in 2009. The decrease in our brand advertising gross margin was due to the growth in brand advertising revenues having been slower than the increase in cost of brand advertising revenues.

#### Cost of Sponsored Search Revenues

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

Cost of sponsored search revenues was \$3.8 million and \$10.2 million, respectively, for the three and nine months ended September 30, 2010, compared to \$2.7 million and \$7.3 million, respectively, for the corresponding periods in 2009. The increase in cost of sponsored search revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$1.1 million. The increase mainly consisted of a \$1.0 million increase in payments to our Website Alliance. The increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$2.9 million. The increase mainly consisted of a \$2.1 million increase in payments to our Website Alliance and a \$0.9 million increase in depreciation and bandwidth leasing costs.

#### *Cost of Online Game Revenues*

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

The total cost of online game revenues were \$8.5 million and \$20.9 million, respectively, for the three and nine months ended September 30, 2010, compared to \$4.7 million and \$12.1 million, respectively, for the corresponding periods in 2009.

The increase in cost of online game revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$3.8 million. The increase mainly consisted of a \$1.2 million increase in salary and benefits expenses, which was attributable to the increased size of our workforce; a \$0.8 million increase in bandwidth leasing and communication costs due to the increased popularity of TLBB and the launch of new games; a \$0.6 million increase in revenue-based royalty payments related to licensed games in operation; and a \$0.5 million increase in depreciation expenses and amortization of licensing fees.

The increase in cost of online game revenues from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$8.8 million. The increase mainly consisted of a \$3.2 million increase in salary and benefits expenses, which was attributable to the increased size of our workforce; a \$1.4 million increase in bandwidth leasing and communication costs due to the increased popularity of TLBB; a \$1.2 million increase in depreciation expenses and amortization of licensing fees; and a \$1.1 million increase in revenue-based royalty payments to the developers of our licensed games in operation.

Our online game gross margin for the three and nine months ended September 30, 2010 was 90% and 91%, respectively, as compared to 93% and 94%, respectively, for the corresponding periods in 2009.

#### *Cost of Wireless and Others Revenues*

##### *Cost of Wireless Revenues*

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

Cost of wireless revenues was \$7.4 million and \$20.1 million, respectively, for the three and nine months ended September 30, 2010, compared to \$9.6 million and \$25.6 million, respectively, for the corresponding periods in 2009.

The decrease in cost of wireless revenues from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$2.2 million. The decrease mainly consisted of a \$1.2 million decrease in collection charges and transmission fees paid to mobile network operators, and a \$1.0 million decrease in payments to third party wireless service alliances and content suppliers. The decrease was in line with wireless revenues fluctuation.

The decrease from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$5.5 million. The decrease mainly consisted of a \$3.4 million decrease in payments to third party wireless service alliances and content suppliers, and a \$2.0 million decrease in collection charges and transmission fees paid to mobile network operators.

The collection charges and transmission fees vary between mobile network operators, mainly including (i) a gateway fee of \$0.003 to \$0.030 per message, depending on the volume of the monthly total wireless messages in the third quarter of 2010, unchanged from the third quarter of 2009 and (ii) a collection fee of 0% to 80% of total fees collected by mobile network operators from mobile phone users (with the residual paid to us) in the third quarter of 2010, compared to 15% to 75% in the third quarter of 2009.

Our wireless gross margin for the three and nine months ended September 30, 2010 was 46% and 47%, respectively, as compared to 43% for both of corresponding periods in 2009.

#### Cost of Revenues for Other Services

Cost of revenues for other services mainly consists of personnel and other expenses in connection with sales of software, provision of ASP services and construction and maintenance of Websites. Cost of revenues for other services was \$0.2 million and \$0.9 million, respectively, for the three and nine months ended September 30, 2010, compared to \$0.7 million and \$1.4 million, respectively, for the corresponding periods in 2009.

#### **Operating Expenses**

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

	Three Months Ended September 30,			Nine Months Ended September 30,						
	2010	2009	2010 vs 2009	2010	2009	2010 vs 2009				
<b>Operating Expense:</b>										
Product development	\$19,454	35%	\$14,531	29%	\$4,923	\$ 51,853	32%	\$ 42,482	31%	\$ 9,371
Sales and marketing	25,410	46%	25,457	50%	(47)	78,025	49%	68,093	49%	9,932
General and administrative	10,619	19%	10,721	21%	(102)	29,886	19%	27,823	20%	2,063
Amortization of intangible assets	163	0%	93	0%	70	410	0%	295	0%	115
<b>Total operating expenses:</b>	<u>\$55,646</u>	100%	<u>\$50,802</u>	100%	<u>\$4,844</u>	<u>\$160,174</u>	100%	<u>\$138,693</u>	100%	<u>\$21,481</u>

Total operating expenses were \$55.6 million and \$160.2 million, respectively, for the three and nine months ended September 30, 2010, compared to \$50.8 million and \$138.7 million, respectively, for the corresponding periods in 2009. The increase in operating expense from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$4.8 million, which was mainly due to increases in product development expenses. The increase from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$21.5 million, which was mainly due to increases in sales and marketing expenses and product development expenses.

### *Product Development Expenses*

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

Product development expenses were \$19.5 million and \$51.9 million, respectively, for the three and nine months ended September 30, 2010, compared to \$14.5 million and \$42.5 million, respectively, for the corresponding periods in 2009.

The increase in product development expenses from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$4.9 million. The increase mainly consisted of a \$2.6 million increase in salary and benefits expenses due to the hiring of more game engineers; a \$0.7 million increase in content and license expenses; a \$0.5 million increase in facility expenses; a \$0.5 million increase in depreciation expenses and a \$0.5 million increase in professional fees.

The increase in product development expenses from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$9.4 million. The increase mainly consisted of a \$5.4 million increase in salary and benefits expenses; a \$1.5 million increase in facility expenses; a \$1.1 million increase in depreciation expenses; and a \$0.9 million increase in professional fees.

### *Sales and Marketing Expenses*

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

Sales and marketing expenses were \$25.4 million and \$78.0 million, respectively, for the three and nine months ended September 30, 2010, compared to \$25.5 million and \$68.1 million, respectively, for the corresponding periods in 2009.

The decrease in sales and marketing expenses from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$47,000. The decrease was mainly due to a \$3.4 million decrease in advertising and promotion expenses mainly for a Sohu branding campaign in 2009, offset by a \$1.6 million increase in salary and benefits expenses, and a \$1.1 million increase in share-based compensation expense primarily for restricted share units granted in January 2010.

The increase in sales and marketing expenses from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$9.9 million. The increase was mainly due to a \$3.4 million increase in salary and benefits expenses; a \$2.8 million increase in share-based compensation expense primarily for restricted share units granted in January 2010; and a \$2.2 million increase in advertising and promotion expenses mainly for the online game business.

### *General and Administrative Expenses*

General and administrative expenses mainly consist of salary and benefits expenses and professional service fees.

General and administrative expenses were \$10.6 million and \$29.9 million, respectively, for the three and nine months ended September 30, 2010, compared to \$10.7 million and \$27.8 million, respectively, for the corresponding periods in 2009.

The decrease in general and administrative expenses from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$0.1 million.

The increase in general and administrative expenses from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$2.1 million. The increase was mainly due to a \$0.9 million increase in share-based compensation expense primarily for restricted share units granted in January 2010; a \$0.8 million increase in professional fees; and a \$0.4 million increase in office expenses.

#### *Amortization of Intangible Assets*

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

Amortization of intangible assets was \$163,000 and \$410,000, respectively, for the three and nine months ended September 30, 2010, as compared to \$93,000 and \$295,000, respectively, for the corresponding periods in 2009.

#### *Share-based Compensation Expense*

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cost of revenues	\$ 1,063	\$ 348	\$ 3,346	\$ 950
Product development expenses	2,238	2,204	6,901	6,777
Sales and marketing expenses	1,271	152	3,402	651
General and administrative expenses	1,989	1,780	5,893	5,007
	<u>\$ 6,561</u>	<u>\$ 4,484</u>	<u>\$ 19,542</u>	<u>\$ 13,385</u>

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

<u>Share-based compensation expense</u>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
For share-based awards granted by Sohu.com Inc.	\$ 4,806	\$ 960	\$ 12,889	\$ 3,530
For share-based awards granted by Changyou.com Limited	1,755	3,524	6,653	9,855
	<u>\$ 6,561</u>	<u>\$ 4,484</u>	<u>\$ 19,542</u>	<u>\$ 13,385</u>

For share options granted by Sohu, as of September 30, 2010 there was no unrecognized compensation expense because the requisite service periods for the remaining share options had ended by the end of 2009. For restricted share units granted by Sohu, as of September 30, 2010 there was \$20.4 million of unrecognized compensation expense.

For share-based awards granted by Changyou, as of September 30, 2010 there was \$8.1 million of unrecognized compensation expense.

### ***Operating Profit***

As a result of the foregoing, our operating profit was \$65.2 million and \$164.5 million, respectively, for the three and nine months ended September 30, 2010, as compared to \$52.6 million and \$151.2 million, respectively, for the corresponding periods in 2009.

### ***Other (Expense) Income***

Other expense was \$0.9 million and \$1.3 million, respectively, for the three and nine months ended September 30, 2010, as compared to other income of \$40,000 and \$103,000, respectively, for the corresponding periods in 2009.

### ***Interest Income and Exchange Difference***

For the three months ended September 30, 2010, interest income and exchange difference was \$1.1 million, comprising interest income of \$2.0 million, offset by exchange loss of \$0.9 million. For the nine months ended September 30, 2010, interest income and exchange difference was \$3.2 million, comprising interest income of \$4.7 million, offset by exchange loss of \$1.5 million. For the three and nine months ended September 30, 2009, interest income and exchange difference was \$1.5 million and \$3.9 million, respectively, mainly consisted of interest income.

### ***Income Tax Expense***

Income tax expense was \$11.3 million and \$25.6 million, respectively, for the three and nine months ended September 30, 2010, compared to \$7.0 million and \$21.6 million, respectively, for the corresponding periods in 2009.

The increase in income tax expense from the three months ended September 30, 2009 to the three months ended September 30, 2010 was \$4.3 million. The increase was mainly due to a \$2.7 million increase in income tax expense of the online game business; a \$0.7 million increase in income tax expense from the utilization of excess tax benefits from existing U.S. Corporate Income Tax net operating losses generated from excess tax deductions related to share-based awards, which reduced our recognition of taxes payable in 2010 for U.S. GAAP purposes.

The increase in income tax expense from the nine months ended September 30, 2009 to the nine months ended September 30, 2010 was \$4.0 million. The increase was mainly due to a \$3.6 million increase in income tax expense of the online game business and a \$1.9 million increase in income tax expense from the utilization of excess tax benefits from existing U.S. Corporate Income Tax net operating losses generated from excess tax deductions related to share-based awards, which reduced our recognition of taxes payable in 2010 for U.S. GAAP purposes, offset by a \$1.2 million income tax expense recognized in the third quarter of 2009 as a result of a change in position by the Beijing tax bureau and a \$0.5 million income tax expense reversal in the second quarter of 2010 for the 2009 annual PRC corporate income tax filing.

The \$0.7 million and \$1.9 million in excess tax benefits mentioned above were correspondingly treated as an increase in shareholders' equity in the consolidated balance sheet and presented as a cash outflow from operating activities and a cash inflow from financing activities. Realizing this benefit reduced the amount of taxes payable and does not otherwise affect cash flows.

### ***Income from Continuing Operations***

For the three and nine months ended September 30, 2010, the income from continuing operations was \$54.0 million and \$140.8 million, respectively, compared to \$47.1 million and \$133.5 million, respectively, for the corresponding periods of 2009.

For the three months ended September 30, 2010, we had income from continuing operations of \$54.0 million, including \$8.7 million from segments other than online game and \$45.3 million from the online game segment. For the three months ended September 30, 2009, we had income from continuing operations of \$47.1 million, including \$9.3 million from segments other than online game and \$37.8 million from the online game segment.

For the nine months ended September 30, 2010, we had income from continuing operations of \$140.8 million, including \$13.7 million from segments other than online game and \$127.1 million from the online game segment. For the nine months ended September 30, 2009, we had income from continuing operations of \$133.5 million, including \$124.5 million from segments other than online game and \$105.8 million from the online game segment, offset by a \$96.8 million intercompany elimination for the dividend distribution from Changyou to Sohu Game.

### ***Gain from Discontinued E-commerce Operations***

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

### ***Net Income***

As a result of the foregoing, for the three and nine months ended September 30, 2010, we had net income of \$54.0 million and \$140.8 million, respectively, as compared to \$47.1 million and \$134.0 million, respectively, for the corresponding periods of 2009.

### ***Net Income Attributable to Noncontrolling Interest***

Net income attributable to noncontrolling interest was \$13.0 million and \$36.1 million, respectively, for the three and nine months ended September 30, 2010, compared to \$9.7 million and \$18.5 million for the corresponding periods in 2009.

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

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

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



### **Net Income attributable to Sohu.com Inc.**

As a result of the foregoing, we had net income attributable to Sohu of \$41.0 million and \$104.7 million, respectively, for the three and nine months ended September 30, 2010, compared to \$37.4 million and \$115.5 million, respectively, for the corresponding periods of 2009.

### **LIQUIDITY AND CAPITAL RESOURCES**

Our principal sources of liquidity are cash and cash equivalents, investment in debt securities, as well as cash flows generated from our operations. As of September 30, 2010, we had cash and cash equivalents of approximately \$534.7 million, compared to \$596.4 million as of September 30, 2009. As of September 30, 2010 and 2009, cash equivalents primarily comprise time deposits.

On November 20, 2009, we entered into an agreement to purchase an office building to be built in Beijing, which will serve as our headquarters, for a purchase price of approximately \$110 million denominated in RMB. On August 20, 2010, the purchase price was adjusted to \$120 million to cover additional purchased floor area. As of September 30, 2010, \$66 million had been paid and was recognized as prepaid non-current assets in our consolidated financial statements. The remaining \$54 million payment will be settled in installments as various stages of the development plan are completed. Construction is expected to be completed by the end of 2012.

On August 23, 2010, Changyou entered into an agreement to purchase an office building to be built in Beijing, which will serve as its headquarters, for a purchase price of approximately \$146 million denominated in RMB. As of September 30, 2010, \$59 million had been paid and was recognized as prepaid non-current assets in our consolidated financial statements. The remaining \$87 million payment will be settled in installments as various stages of the development plan are completed. Construction is expected to be completed by the end of 2012.

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

### **Cash Generating Ability**

Our cash flows are summarized below (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Net cash provided by operating activities	\$ 184,117	\$ 168,425
Net cash used in investing activities	(219,608)	(15,815)
Net cash (used in) provided by financing activities	(144)	129,584
Effect of exchange rate change on cash and cash equivalents	6,515	(266)
Net (decrease) increase in cash and cash equivalents	(29,120)	281,928
Cash and cash equivalents at beginning of period	563,782	314,425
Cash and cash equivalents at end of period	<u>\$ 534,662</u>	<u>\$ 596,353</u>

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

For the nine months ended September 30, 2010, \$184.1 million net cash provided by operating activities was primarily attributable to our net income of \$140.8 million, adjusted by non-cash items of share-based compensation expense of \$19.5 million, depreciation and amortization of \$18.2 million and other miscellaneous non-cash expense of \$1.0 million, and an increase in cash from working capital items of \$6.5 million, offset by a decrease in cash of \$1.9 million excess tax benefits. In accordance with U.S. GAAP, this \$1.9 million in excess tax benefits was presented as a reduction of cash flows from operating activities and a cash inflow from financing activities. Realizing this benefit reduced the amount of taxes payable and does not otherwise affect cash flows.

For the nine months ended September 30, 2009, net cash provided by operating activities was \$168.4 million. This was primarily attributable to our net income of \$134.0 million, adjusted by non-cash items of share-based compensation expense of \$13.4 million, depreciation and amortization of \$13.4 million, an increase in cash from working capital items of \$6.3 million and other miscellaneous non-cash expense of \$1.3 million. The \$6.3 million was the net impact of an \$18.9 million income tax refund received in January 2009 offset by a decrease in cash from other working capital items of \$12.6 million.

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

For the nine months ended September 30, 2010, \$219.6 million net cash used in investing activities was primarily attributable to \$130.8 million used in acquiring fixed assets and prepaid non-current assets, including \$125.2 million paid for office buildings to be built in Beijing, \$74.6 million of investment in debt securities and \$14.2 million used in business acquisitions.

For the nine months ended September 30, 2009, \$15.8 million net cash used in investing activities was primarily attributable to \$18.5 million used in acquiring fixed assets and prepaid non-current assets, offset by a \$2.7 million decrease in restricted cash.

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

For the nine months ended September 30, 2010, \$0.1 million net cash used in financing activities was primarily attributable to repayment of a \$3.0 million loan by one of Sohu's subsidiaries to a third party, offset by \$1.9 million in excess tax benefits mentioned above in "Net Cash Provided by Operating Activities," and \$1.0 million from the issuance of common stock upon the exercise of share options granted under our stock incentive plan.

For the nine months ended September 30, 2009, \$129.6 million net cash provided by financing activities was primarily attributable to \$128.3 million of proceeds generated from Changyou's initial public offering after deducting underwriting discounts and commissions but before deducting offering expenses, and \$3.8 million from issuance of common stock upon the exercise of options granted under our stock incentive plan, offset by \$1.8 million for other financing activities payment and \$0.7 million for the reversal of excess tax benefits related to share-based payment arrangements.

#### **Cash and cash equivalents**

As of September 30, 2010, we had cash and cash equivalents of approximately \$534.7 million compared to \$563.8 million as of December 31, 2009.

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

#### **Restrictions on Cash Transfers to Sohu.com Inc.**

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

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

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

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

With respect to PRC tax, certain dividends paid by WFOEs to their immediate Hong Kong holding companies that meet tax authorities' requirements would be subject to a withholding tax at the rate of 5%, which would reduce the amount of cash available for distribution to Sohu. Any such dividends paid to Hong Kong holding companies that did not meet the tax authorities' requirements would be subject to a withholding tax at the rate of 10% which would further reduce the amount of cash available for distribution to Sohu.

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

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

#### **Dividend Policy**

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

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

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

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

#### **OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

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

#### **IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### FOREIGN CURRENCY EXCHANGE RATE RISK

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

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

On June 19, 2010, the People’s Bank of China announced that it has decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB’s exchange rate more flexible, the People’s Bank of China ruled out any sharp fluctuations in the currency or a one-off adjustment. Shortly after this announcement, the center point of the currency’s official trading band broke through the 6.8 barrier to hit 6.7969 to the U.S. dollar, and further hit 6.6497 in October 2010; the appreciation is 3% in total, which is the highest center point of the past five years. As a result of this announcement, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the market supply and demand with reference to a basket of currencies.

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

The following table sets forth a summary of our foreign currency sensitive financial instruments as of September 30, 2010, which consisted of cash and cash equivalents, investment in debt securities, account receivables, prepaid and other current assets, and current liabilities. The maturity of those financial instruments was less than one year and their book value approximated fair value.

	Denominated in (in thousands)			Total
	US\$	RMB	HK\$	
Cash and cash equivalents	\$161,389	\$372,057	\$1,216	\$534,662
Investment in debt securities	0	74,615	0	74,615
Account Receivables	1,553	68,525	24	70,102
Prepaid and other current assets	4,592	15,270	4	19,866
Current liabilities	9,043	184,050	132	193,225

As discussed above in Note 6—Commitments and Contingencies – Contractual Obligation, the \$141 million that remains due for the two office buildings purchased will be settled in RMB.

#### INTEREST RATE RISK

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

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

#### INFLATION RATE RISK

According to National Bureau of Statistics, China's consumer price index, a main gauge of inflation, grew 2.9% in the first nine months of 2010. Although this rate of inflation was relatively mild, and within a manageable range, there may be significant inflation in the future, which could have a material adverse effect on our business.

#### ITEM 4. CONTROLS AND PROCEDURES

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

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

#### PART II—OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

There have been no material developments in the legal proceedings reported in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 26, 2010 and Form 10-Q for the quarterly periods ended March 31, 2010 and June 30, 2010 respectively.

**ITEM 1A. RISK FACTORS**

There are no other material changes or updates to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on February 26, 2010, and in Part II, Item 1A of our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2010 and June 30, 2010 filed with the SEC on May 7, 2010 and August 5, 2010, respectively.

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

***Use of Proceeds***

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

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

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. (REMOVED AND RESERVED)**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Please see the Exhibit Index attached hereto.





**EXHIBITS INDEX**

- 10.1 Project Cooperation Agreement of Changyou, dated August 23, 2010
- 10.2 Amended and Restated 2010 Stock Incentive Plan
- 10.3\* Cooperation Agreement, dated September 30, 2010
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Carol Yu
- 32.1 Section 1350 Certification of Charles Zhang
- 32.2 Section 1350 Certification of Carol Yu
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009; (ii) Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009; (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009; (iv) Condensed Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2010 and 2009; and (v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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\* Portions of this exhibit have been omitted pursuant to a request for confidential treatment, and the omitted information has been filed separately with the Securities and Exchange Commission.

Beijing Raycom Jingyuan Real Estate Development Co., Ltd.

And

Beijing AmazGame Age Internet Technology Co., Ltd.

**Project Cooperation Agreement**

on

Raycom Creative Industry Center Project

This Agreement is entered into by and between the following parties on the 23<sup>rd</sup> day of August 2010 in Beijing:

Party A: Beijing Raycom Jingyuan Real Estate Development Co., Ltd.

Address: Room 2106 A9, No.20 Shijingshan Road, Shijingshan District, Beijing

Legal Representative: Chen Guodong

Party B: Beijing AmazGame Age Internet Technology Co., Ltd.

Address: 2th Floor, East Tower, Jingyan Building, No.29 Shijingshan Road, Shijingshan District, Beijing

Legal Representative: Wang Tao

**Whereas:**

1. Party A is a real estate development company registered in Beijing and validly existing pursuant to Chinese laws, which has by means of transfer acquired the land use right of the state-owned land for commercial and financial usage situated at Bajiao Zone of Shijingshan District in Beijing (the "Land" hereinafter) and has been lawfully approved by the government to construct the Raycom Creative Industry Center Project (the "Project" hereinafter) on the Land.
2. Party B is a limited company registered in Beijing and validly existing pursuant to Chinese laws, which, to address the needs of its development, intends to cooperate with Party A for certain premises of the Project according to the terms agreed herein and intends to purchase certain premises of the Project from Party A at the time set forth in this Agreement.

Therefore, based on the principle of equality and willingness and through full negotiation, both parties have reached the following common understandings and entered into this Agreement with regard to the cooperation for the Project:

**I. Project Overview:**

1. Land Location: Bajiao South Road, Shijingshan District, Beijing
2. Purpose of Land: For commercial and financial usage
3. Construction Land Area: 19749.65 square meters
4. Planned Built Floor Area: 112543 square meters, including 77093 square meters over ground and 35450 square meters underground. (The planned built floor area of the Project is subject to the built floor area after the planning adjustment as agreed in this Agreement).

## **II. Governmental Approvals:**

As of the date of signing of this Agreement, Party A has obtained the following governmental approvals, permits or licenses for the Project (See details in Appendix I and Appendix II hereto):

1. State-owned Land Use Right of Jing Shi GuoYong (2010 Chu) No. 00106; State-owned Land Use Right of Jing Shi GuoYong (2010 Chu) No. 00107; and State-owned Land Use Right of Jing Shi GuoYong (2010 Chu) No. 00108;
2. DiZi No.110107201000006/2010Gui (Shi) DiZiNo.0003 Construction Land Planning Permit;

## **III. Pattern of Cooperation:**

Both parties agree that Party A will develop and construct the Premises (see the definition below) according to the terms and standards agreed herein, and after Party A obtains advance sale permit (or other sale or advance sale permits or certificates) to be issued by government, Party A shall transfer the south tower building, the west podium building, the third and fourth floors of the east podium building and the second underground floor with a total area of 56184 square meters (except for parts Party A is not permitted to sell according to applicable laws and regulations, such as civil air-defense construction works and parts that cannot be apportioned) and their respective allocated land use rights (collectively referred to as the "Premises") to Party B by means of advance sale or purchase/sale of commercial premises. The area of the Premises shall include overground area of 46134 square meters of which 2886 square meters are the estimated pooled area and underground area of 10050 square meters. The final area of the Premises shall be determined according to the measured area specified in a technical report of actually surveyed space of the Premises (See Appendix 3 for the location and floor plan of the Premises).

## **IV. Construction Schedule:**

Party A agrees to develop and construct the Premises according to the following schedule:

1. Obtain the construction engineering planning permit and construction permit for the Project before 1st March 2011.
2. Complete±0 of the Project before 1<sup>st</sup> July 2011 (subject to the report issued by the project supervisory institution).
3. Complete the roof-sealing of main structure of the Project before 1<sup>st</sup> February 2012 (subject to the report issued by the project supervisory institution).
4. Complete completion inspection and filing of the Project before 31<sup>st</sup> November 2012.

5. Party A will endeavor to deliver completed Premises in compliance with the deliverable conditions set forth herein to Party B for its use before 31<sup>st</sup> December 2012.

#### **V. Planning and Construction of the Premises:**

1. Party A shall design and construct the Premises in satisfaction with the requirements and standards agreed in Appendices IV, V, VI, VII, VIII, IX, X and XI hereto, and deliver the design drawings of the Premises to Party B for comment. Party B shall give written comments thereupon within the time specified in Appendix VIII. Party A shall conduct full communication with Party B within 7 days upon receiving the comments from Party B, and after the two parties reach an agreement and confirm in writing, Party A shall make adjustments and amendments to the design plan according to the function requirements of Party B. Both parties shall give written confirmation on the design plan adjusted and modified by Party A and use them as the basis for the design and construction of the Premises. If Party A needs to make material adjustment to the design plan of the Premises approved by planning authority, Party A shall obtain Party B's prior written consent therefor and any adjustment to the design plan shall not materially affect the normal use of the Premises by Party B. Nevertheless, both parties agree that, if they fail to agree upon the design plan within 7 days after receiving Party B's written comments, Party A shall, in accordance with applicable requirements of Chinese laws, regulations and policies, make the final amendment to the design plan and give a written notice thereof to Party B and carry out construction of the Premises on the basis thereof. Such amendment shall satisfy the design requirements, material/equipment brand requirements and specifications as set forth in Appendices IV, V and VI and shall not be inferior to "Tower C, Raycom Information Plaza". Both parties acknowledge that, in the event that any dispute occurs between the parties with regard to the design or construction standards of the Premises during development and construction of the Premises, Party A shall immediately provide Party B with the files and documents concerning the design and construction standards of "Tower C, Raycom Information Plaza" and unconditionally assist Party B in consulting relevant files and conducting site verification of the Premises.

2. Design Changes: During the construction of the Premises, Party B may lodge design change requests to Party A, provided that such a request shall be submitted to Party A in writing. After receiving a change request from Party B, Party A will calculate costs according to relevant costing files and submit the results to Party B for review. Party B shall complete the review within 7 days after receiving the comments from Party A, and reach an agreement thereupon with party A and confirm the change in writing, otherwise Party A shall have the right to reject the change request. In addition, if the construction period of key-node works is delayed due to the design change requested by Party B, Party A shall have the right to postpone delivery of the Premises accordingly and the costs and expenses resulting from the delay (at the rate of 0.1‰ of the total transfer price of the Premises for each day of delay) shall be borne by Party B. If the delay exceeds 30 days cumulatively, Party A shall have the right to reject any and all subsequent design change requests from Party B. Both parties acknowledge that, after their confirmation of the design drawings, with regard to the additional costs and expenses arising from implementation of new design changes requested by Party B, the amount within RMB¥500,000.00 (inclusive of RMB¥500,000.00) shall be borne by Party A and the amount exceeding RMB¥500,000.00 shall be borne by Party B after Party B's written confirmation.

3. Selection of building materials and equipments for the Premises: Both parties agree to select building materials and equipments for the Premises within the scope agreed in Appendix V hereto. Party A agrees that building materials and equipments are to be selected out of the brands agreed in Appendix V. In extraordinary cases where the building materials and equipments to be chosen by Party A are not within the scope of brands set forth in Appendix V, Party A shall notify Party B in writing and obtain Party B's consent thereof. Party B shall make its decision within 7 days after receiving Party A's written notice; otherwise, Party B shall be deemed to agree to Party A's choice. Party A shall ensure the materials and equipments chosen by it in conformity with related regulations and not inferior to the standards specified in Appendix V.

4. Premises Management: See details in Appendix IX.

**VI. Principles of Construction:**

Both parties agree that construction of the Premises shall abide by the following principles:

1. First of all, construction of the Premises shall comply with the requirements of Chinese laws and regulations.
2. Subject to compliance with the aforesaid requirements, construction of the Premises shall meet the standards and requirements agreed herein by both parties.
3. Issues not specified by both parties in this Agreement shall be subject to standards not inferior to "Tower C, Raycom Information Plaza".

**VII. Price and payment details are set forth in Appendix XII hereto.**

**VIII. Signing of Advance Sale Contract for the Premises:**

Part A guarantees it will obtain the advance sale permit for the Project before 1 October 2011. After obtaining the advance sale permit, Party A shall give a written notice to Party B within 5 working days and Party B shall sign the advance sale contract for the Premises with Party A within the period designated in Party A's written notice (the advance sale contract shall be printed and signed by the two parties after being downloaded from the website of Beijing administration bureau of real estate transaction). However, the period designated by Party A in its written notice shall be reasonable. The Appendixes hereto shall be incorporated into the advance sale contract for the Premises.

Since the area of the Premises has not been pre-measured at the time of signing this Agreement, the area and the price contained in this Agreement is estimated only, both Parties agree that after the Premises' area is pre-measured by qualified survey institution, the two Parties will recalculate the price of the Premises according to the pre-measured area and the unit price provided hereunder and sign the advance sale contract for the Premises accordingly.

**IX. Delivery of the Premises:**

1. When Party A delivers the Premises to Party B, the Premises shall meet all of the following delivery conditions:

- 1) The Premises has been completed according to the design and construction standards agreed herein and has obtained planning inspection approval, completion inspection filing form.
- 2) Party A has obtained a technical report of actually surveyed space of the Premises issued by a qualified real estate survey institution.
- 3) Water supply, drainage and heating supply are available for normal use; telephone lines are available to floor distributor on each floor and cable TV lines to branch distributors on each floor.

2. After the Premises meets the deliverable conditions, Party A shall give a 7-day prior written notice to Party B (the "Delivery Notice" hereinafter). Party B shall fulfill the transfer procedure of the Premises on the date specified in the Delivery Notice, and sign a property transfer form. If Party B fails to fulfill the property transfer procedure with Party A or sign the property transfer form on the date specified in the Delivery Notice due to any reason attributable to Party B, the Premises shall be deemed as having been officially delivered to Party A according to the schedule, standards and conditions set forth herein from the day immediately following the date of delivery specified in the Delivery Notice. Effective from that day, Party B shall bear and pay the reasonable costs and expenses that have actually occurred for management and maintenance of the Premises, and any and all risks (including, without limitation to, risks of destruction and loss) and liabilities associated with the Premises shall be transferred to Party B from the same day.

3. If Party B fails to pay all amounts and other agreed costs and expenses due according to the advance sale contract and this Agreement, Party A shall have the right to correspondingly delay the delivery of the Premises to Party B without bearing any liability for the delayed delivery until Party B fully make the due payment.

4. When delivered by Party A, the Premises shall have passed the inspection by the governmental authority in charge and obtained the completion inspection filing form. If Party B finds through inspection that the Premises has quality problems and/or decoration or equipment defects that will not affect the function of the Premises, Party A shall complete rectification and/or repair of the same within 60 days from the date of delivery of the Premises according to the regulations and standards on the engineering quality promulgated by central government and Beijing municipal government (the warranty period for the Premises shall be extended accordingly) and assume the costs thereof. Party B shall not use such problems and defects as excuse of its refusal to accept the Premises or to request Party A to bear the liability of late delivery of the Premises, neither shall Party B use such problems and defects to refuse to fulfill the property transfer procedure or to request rejection and return of the Premises; if a problem found by Party B during such inspection is of material and substantial influence on the function of the Premises, Party B shall have the right to reject the Premises in addition to the right to request rectification or repair by Party A within the aforesaid time limit, and to require Party A to bear liability for delayed delivery of the Premises according to the advance sale contract and this Agreement.

5. If Party B finds other quality problems of the Premises after accepting it, Party B shall still have the right to request Party A to provide rectification or repair. If Party A fails to complete rectification or repair within the requested time limit, Party B shall have the right to perform the rectification or repair by its own or have it done by a third party. In such case, Party B shall be entitled to deduct the cost thereof from the subsequent payment of contract price, and where the subsequent payment is insufficient to cover the cost, Party B shall have the right to request Party A to pay the insufficient amount.

#### **X. Undertakings and Warranties:**

1. After signing of this Agreement and unless otherwise specified herein, Party A undertakes that it will not set any form of mortgage on the Premises (including the land use right and the construction in progress) without permission of Party B, and that the Premises (including the land use right and the construction in progress) will not be sealed up or subject to other judicial enforcement measures.

2. Party A undertakes that all information and/or material it provides to Party B before executing this Agreement is true, and that it will immediately inform Party B of any circumstance that occurs before consummation of the transaction and may affect the transaction (for instance, windup, liquidation, or legal action, arbitration or other legal proceedings involving the Premises).

3. Party A warrants that it lawfully possesses the land use right of the Land and has the right to develop and construct the Premises according to this Agreement, that it is the sole legal and actual owner of the Premises, has lawful and valid qualification for real estate development, and has the full right to execute and perform this Agreement. The Premises is free of ownership encumbrances that may have negative influence on the rights and interests of Party B hereunder.



4. Except for those that have been disclosed, if Party A is involved in any legal action, arbitration, prosecution, administrative or other legal proceedings or dispute with regard to the Premises, it shall immediately inform Party B. If there is any outstanding Premises payment, land transfer price or any other expenses payable but unpaid and/or disputes in connection with development and construction of the Premises or arising from the late payment of the compensation by Party A in accordance with the Agreement On Compensation For The Development Of The Reserved Land entered by Party A and Beijing Land Reserve Center, or if there is any administrative penalty caused by the failure of Party A to start construction at the time specified in the Contract on the Transfer of the Use Right of the State Owned Construction Land, Party A shall bear all liabilities, including but not limited to the compensation liability, administrative penalties, arising there from.

5. Party A undertakes to purchase sufficient amount insurance for the construction of the Premises during the construction period according to the requirements of laws and policies.

6. Party A undertakes to independently bear the responsibility of payment to any third party and the responsibilities of the real estate developer in relation to the Premises. If Party B suffers any claims or damages due to the failure of Party A to fulfill payment to third parties or to perform its responsibilities as real estate developer or other obligations, Party A shall compensate all losses that Party B has suffered as a result of such failure.

7. Party A agrees that, as demanded by Party B, it will assist Party B and/or affiliates of Party B in obtaining the (separate) ownership certificate (s) of the Premises, and Party B shall duly provide, as requested by Party A, the full information required for obtaining the ownership certificate (s) of the Premises to be acquired by Party B.

8. Party A shall ensure it will lawfully construct the Premises, and the construction procedure and standards of the Premises meet applicable mandatory standards of the central government and Beijing municipal government as well as the standards set forth herein.

9. Party A agrees that in order to guarantee the performance of its obligations hereunder, Party A's holding company will issue a "Letter of Guarantee" as shown in Appendix XIII to Party B when signing this Agreement.

10. Party A agrees that Party B has the right to supervise and inspect development and construction of the Premises or dispatch a third party to perform the supervision and inspection according to the terms agreed herein at anytime, and to require Party A to rectify the items not conforming to the covenants herein. Within 10 working days after the completion of the key-node works agreed herein, Party A shall give a written notice thereof to Party B.

#### **XI. Defaults:**

1. In the event that Party A has obtained the advance sale permit for the Premises and sent a written contract-signing notice to Party B, if Party B refuses to execute the advance sale contract with Party A within the time limit specified in Party A's notice, Party A shall be entitled to deduct 15% of the total transfer price of the Premises from the initial installment previously paid by Party B as penalty and refund the balance to Party B. If Party A refuses to sign the advance sale contract with Party B, Party A shall refund the initial installment previously paid by Party B and pay 15% of the total transfer price of the Premises to Party B as penalty.

2. If Party B delays payment of any amount agreed hereunder, it shall pay penalty to Party A at the rate of 0.3% of the amount payable but unpaid for each day of the delay. If the delay lasts for more than 30 days, Party A shall have the right to terminate this Agreement. In that event, Party A shall serve a written termination notice to Party B within 30 days after Party A has the right to terminate the Agreement. Party B shall pay 15% of the total transfer price of the Premises to Party A as penalty. If Party A chooses not to cancel this Agreement, or Party A fails to serve the written termination notice to Party B within 30 days after Party A has the right to terminate the Agreement and the advance sale contract, Party A shall be deemed to be willing to continue the performance of this Agreement and the advance sale contract and deliver the Premises. In such case, the Agreement and the advance sale agreement will be continually performed and Party B shall pay daily penalty to Party A at 0.3% of the overdue amount for the period from the agreed date when the amount becomes due and payable to the date when the amount is actually paid, and the penalty shall be paid to Party A within 7 days from the date of actual payment of the amount.

3. If Party A fails to deliver the Premises with deliverable conditions to Party B by the date agreed herein, Party A shall pay daily penalty at 0.3% of the total transfer price for each day of the delay from the 61<sup>st</sup> day after the agreed delivery date; if the delay exceeds 150 days, Party B shall have the right to return the Premises. In the event that Party B chooses to return the Premises, Party B shall serve a written cancellation (return of the Premises) notice to Party A within 30 days from the date when Party B has the right to return the Premises. Within 15 days after both parties complete all procedures for cancellation of the advance sale contract and this Agreement, Party A shall refund to Party B the price of the Premises that has been previously paid and shall further pay 15% of the total transfer price of the Premises to Party B as penalty. If Party B choose not to return the Premises, or Party B fails to give a written notice of cancellation of the advance sale contract and this Agreement to Party A within 30 days from the date when Party B has the right to return the Premises, Party B will be deemed to be willing to continue the performance of the advance sale contract and this Agreement and wait for the delivery of the Premises, in which case performance of the advance sale contract and this Agreement shall be continued, and Party A shall pay daily penalty to Party B at 0.3% of the amount previously paid by Party B for the period from the 61<sup>st</sup> date after the agreed delivery date set forth herein to the date of actual delivery, and the penalty shall be paid to Party B within 7 days from the date of actual delivery of the Premises.

4. If Party A cannot deliver the Premises as agreed herein as a result of any of the following events, it may postpone the delivery accordingly depending on the circumstance without bearing any responsibility subject to giving a timely notification to Party B: (1) force majeure; and/or (2) governmental acts; and/or (3) any new law, regulation or administrative rule has been enacted after execution of the advance sale contract and this Agreement and Party A cannot deliver the Premises as result of such new law, regulation or administrative rule; and/or (4) outbreak of infectious disease like SARS; and/or (5) delays caused by Party B.

5. If Party B cannot obtain the ownership certificate of the Premises within 600 days from the date of delivery of the Premises due to the fault of Party A, Party B shall have the right to return the Premises. If Party B chooses to return the Premises, Party A shall pay penalty to Party B that is equivalent to 15% of the total price of the Premises, and shall refund the purchase price previously paid by Party B and pay the penalty to Party B within 15 days after both parties fulfill all procedures for cancellation of the advance sale contract and this Agreement. If Party B selects not to return the Premises, Party A shall pay daily penalty to Party B at 0.3% of the total Premises price previously paid by Party B for the period from the day immediately following the date of expiration set forth herein to the date when the ownership certificate of the Premises is actually obtained.

6. Unless otherwise agreed herein, Party A will be deemed as materially breaching this Agreement if it sets any mortgage on the land use right of the Premises or on the constructing Premises or by any means sets a third party's right that may impair the full possession of the ownership of the Premises and land use right by Party B, or if the Premises and/or its land use right is sealed up by judicial authorities due to such mortgage or right encumbrance. In such case, if Party A fails to rectify the breach within ten business days after receiving the written notice from Party B, Party B shall have the right to cancel this Agreement immediately on expiration of said period of ten business days and Party A shall refund the purchase price of the Premises previously paid by Party B and pay 15% of the total transfer price of the Premises as penalty to Party B within 15 days after both parties fulfill all procedures for cancellation of the advance sale contract and this Agreement.

7. If there are amounts payable by Party B to Party A, and if Party A has committed a breach before payment of such amounts and shall therefore pay penalty to Party B, Party B may directly deduct such penalty from the amounts payable to Party A (provided that Party B shall not make such deduction if Party A disputes the act of breach).

8. If Party A unilaterally resell the Premises to a third party and consequently prevents further performance of this Agreement, Party B shall have the right to cancel this Agreement, in which case Party A shall refund the amount previously paid by Party B and pay 15% of the total transfer price of the Premises as penalty to Party B.

**XII. Notices:**

Notices given by each party to the other party for the purpose of performing this Agreement shall be served to the following address respectively:

Address of Party A: 8 Floor, Tower C North Building, Raycom Information Plaza

No. 2, Kexueyuan South Road, Haidian District, Beijing

Attention: Yin Ming

Email: [yinming@raycomchina.com](mailto:yinming@raycomchina.com)

Tel: 010-62509610

Fax: 010-62509472

Address of Party B: 2th Floor, East Tower, Jingyan Building, No.29 Shijingshan Road, Shijingshan District, Beijing

Attention: Shen Yang

Email: [Shenyang@cyou-inc.com](mailto:Shenyang@cyou-inc.com)

Tel: 010-68613341

Fax: 010-68874008

Any change of the address or recipient of either party shall be notified to the other party in writing, or otherwise service of notices to the above addresses shall be deemed as valid.

**XIII. Confidentiality:**

1. For the purpose of this Agreement, the word "Confidential Information" shall refer to any and all unpublicized confidential information relating to or in connection with the cooperation hereunder. Unless with prior written consent of the other party, neither party shall by any means disclose Confidential Information to any third party.
2. Each party shall ensure that its affiliates, employees, executives, representatives or agents and professional consultants shall comply with the confidentiality obligation set forth herein, and shall prevent such personnel from using Confidential Information in business activities irrelevant to this Agreement.
3. The confidentiality obligation set forth herein is not applicable to the following situations: information that has entered into public domain before being disclosed by either party; the disclosure or use of the information is required by mandatory provisions of applicable laws or by a court; the disclosure or use of the information has obtained prior written consent of the other party or is for the purpose of performing this Agreement.
4. The confidentiality obligation hereunder shall survive the termination of this Agreement.

5. After execution of this Agreement, without obtaining prior approval of the other party (such approval shall not be unreasonably withheld or delayed), neither party hereto shall make any announcement, disclosure or declaration of matters in connection with this Agreement, nor shall it disclose or release any information relating to the other party that it has obtained during negotiation or performance of this Agreement. However, each party may reveal the information to its professional consultants or its executives or employees that need to know the information for the purpose of their duties and the two parties can also make disclosures as required by applicable laws and regulations, listing rules and/or stock exchange rules and/or requirements of other relevant institutions. This clause shall survive termination of this Agreement.

**XIV. Severability:**

If any provision hereunder is held void, invalid, illegal or enforceable by a judicial/arbitration institution, the invalidity, illegality or unenforceability of the provision shall not affect the validity and enforceability of other provisions of this Agreement.

**XV. Waiver of Rights:**

1. Any waiver of either party of the other party's breach or nonperformance of any provision herein shall not be deemed as its waiver of the other party's subsequent breach or nonperformance of that provision or of other provisions herein.
2. Not exercising or delayed exercise of rights or remedies hereunder shall not constitute waiver of relevant provisions herein.
3. One single exercise or partial exercise of a right or remedy hereunder shall not obstruct or limit the further exercise of that right/remedy.
4. The rights and remedies enjoyed by each party hereunder are cumulative and shall not exclude any rights and remedies provided by law.

**XVI. Settlement of Disputes & Miscellaneous:**

1. Any and all disputes arising from or in connection with this Agreement shall be referred to China International Economic and Trade Arbitration Commission in Beijing for arbitration according to the arbitration rules of said Commission now in force. The ruling of arbitration shall be final and binding upon both parties.
2. Air-conditioning system, firefighting facility, engine room and other facilities and equipments of the Project commonly used by all proprietors and roads and gardens in the Project shall be commonly owned by all proprietors. Party B shall properly use and shall not damage such commonly owned facilities. If Party B occupies or damages such commonly owned facilities, Party B shall immediately restore the status of the facilities to their original status and pay RMB 100,000 to Party A as penalty for each occupancy or damage.

If Party A conducts repairing or maintenance work on premises adjacent to the Premises hereunder or on commonly used parts or facilities and equipments inside the Premises, Party B shall provide cooperation and convenient conditions therefor. If Party B refuses to provide cooperation and convenience, losses caused thereby shall be assumed by Party B.

3. Except provided otherwise by laws, the planned parking space of the Project shall be owned by Party A; Party B shall not occupy. In case Party B needs to use the parking space, Party B shall fulfill purchase or lease procedures of Party A or Party A's agent; however, the ratio between the parking spaces to be purchased or leased by Party B to the total parking spaces of the Project shall be determined by the ratio of the area purchased by Party B hereunder against the total area of the Project.

4. Party B shall be entitled to set the name plates, logos or advertisements of Party B and its affiliated companies. Party A shall not set any name plates, logos or advertisements.

5. Party B undertakes to comply with all regulations of the property management company of the Project, and will not put or pile up articles in the common area (including but not limited to eaves gallery, roads, grassy area and gardens) or conduct exhibition or promotion activities in the common area without obtaining the consent of the property management company.

6. This Agreement shall fall into full force and effect after signed by each party's legal representative or authorized representative. Issues unmentioned herein shall be further discussed by both parties and executed in a written supplementary agreement, which shall constitute an integral part of and have equal legal effect with this Agreement.

7. Appendices hereto shall constitute an integral part of and have equal legal effect with this Agreement.

8. This Agreement is made in four originals with equal legal effect. Each party shall respectively hold two of them.

There is no text hereinafter.

## SOHU.COM INC.

## AMENDED AND RESTATED 2010 STOCK INCENTIVE PLAN

**1. Purposes of this Plan**

This 2010 Stock Incentive Plan (this “Plan”) is intended to provide incentives: (a) to the directors, officers, employees, consultants and advisors of Sohu.com Inc., a Delaware corporation (the “Company”), and any present or future parents or subsidiaries or variable interest entities (“VIEs”) of the Company by providing them with opportunities to (i) acquire shares of Common Stock of the Company pursuant to options (“Options”) granted hereunder, (ii) to receive Restricted Share Unit awards (“RSU”), and (iii) to make direct purchases of Common Stock of the Company, subject to vesting (“Restricted Shares”). In addition to Options, RSUs, and Restricted Shares, other Awards involving Common Stock and other Awards that are valued in whole or in part by reference to, or are otherwise based upon or settled in, Common Stock, including (without limitation) unrestricted Shares, performance units, stock appreciation rights, dividend equivalents, and convertible debentures, may be granted or sold under this Plan.

**2. Definitions**

“Applicable Laws” means laws of the Company’s jurisdictions of incorporation and operation and requirements relating to the granting or sale of equity incentives and the administration of equity share incentive plans under the laws of any country or other jurisdiction where Awards are issued or sold under this Plan, and under the rules of any securities exchange on which the Company’s Common Stock is listed.

“Award” means an Option, RSU, Restricted Share, or other share-based award or right granted or sold pursuant to the terms of this Plan.

“Award Agreement” means a written or electronic document or agreement setting forth the terms and conditions of a specific Award.

“Board” means the Board of Directors of the Company.

“Common Stock” means the common stock, \$0.001 par value per share, of the Company.

“Compensation Committee” means the full Board or a Compensation Committee appointed by the Board, which Compensation Committee will be constituted to comply with Applicable Laws and which will administer this Plan in accordance with Section 4 below.

“Company” means Sohu.com Inc., a Delaware corporation.

“Consultant” means any person who is engaged by the Company or any Parent or Subsidiary or VIE to render consulting or advisory services to such entity, but is not an employee of the Company or any Parent or Subsidiary or VIE.

“Director” means a member of the Board.

“Disability” means any total and permanent disability which prevents a Service Provider from continuing in such capacity.

“Employee” means any person employed by the Company or any Parent or Subsidiary or VIE of the Company. A person will not cease to be an Employee solely by virtue of also being a Director of the Company. A Service Provider will not cease to be an Employee in the case of:

(i) any leave of absence approved by the Company; or

(ii) transfers between locations of the Company or between the Company, any Parent, any Subsidiary, any VIE, or any successor to the Company or any Parent, Subsidiary, or VIE.

“Exchange” means NASDAQ, the New York Stock Exchange or any other internationally recognized stock exchange of similar prestige and liquidity.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended and in effect on any given date.

“Fair Market Value” as of any given date means, unless otherwise defined in an Award Agreement, if the Common Stock is listed on an Exchange, the closing price for the Common Stock on such exchange, or if Shares were not traded on such exchange on such given date, then on the next preceding date on which Shares were traded, all as reported in The Wall Street Journal or such other resource as the Compensation Committee deems reliable. If the Common Stock is listed on an Exchange, in the event that an Award is granted on any given date prior to the time that trading has ended on the applicable exchange on such date, Fair Market Value may be determined as of the date preceding such grant. If the Common Stock is not listed on an Exchange, Fair Market Value shall be determined by the Compensation Committee in its good faith discretion, using such methods of appraisal and valuation as it deems appropriate, including without limitation the Fair Market Value of any class of common equity of the Company, with economic rights comparable to those of the applicable class, that is listed on an Exchange.

“Holder” means the holder of an outstanding Award granted or issued under this Plan.

“Option” means an option granted pursuant to this Plan to purchase Common Stock.

“Outside Director” means a member of the Board who is not an Employee or Consultant.

“Parent” means any entity which holds directly or indirectly more than fifty percent of the voting equity of the Company.

“Plan” means this 2010 Stock Incentive Plan, as amended from time to time.

“Restricted Share” means share of Common Stock issued subject to forfeiture or repurchase by the Company until vested.

“Restricted Share Unit” or “RSU” means a grant of a hypothetical number of shares of Common Stock, to be settled upon vesting in either Common Stock or cash, as determined by the Compensation Committee.

“Service Provider” means an Employee, Director, or Consultant.

“Share” means a share of Common Stock.

“Subsidiary” means any entity in which the Company holds directly or indirectly more than fifty percent of the voting equity.

“Tax Law” means the relevant tax legislation of an applicable jurisdiction, as amended from time to time and in effect on any given date.

“Underlying Shares” means the shares of Common Stock subject to Options or issuable upon vesting and settlement of RSUs.

“U.S. Incentive Stock Options” means Options intended to qualify as incentive stock options within the meaning of Section 422 of the U.S. Internal Revenue Code.

“U.S. Internal Revenue Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time and in effect on any given date.

“U.S. Non-Qualified Stock Option” means an Option not intended to qualify as a U.S. Incentive Stock Option.

“VIE” means a variable interest entity of the Company.

Except where otherwise indicated by the context, the masculine gender will include the feminine gender, and the definition of any term herein in the singular also will include the plural.



### **3. Shares Subject to this Plan**

#### ***(a) Number of Shares Available***

Subject to the provisions of Section 3(b) and Section 10 of this Plan, the maximum number of shares of Common Stock that may be subject to Awards granted and sold under this Plan is 1,500,000. At all times during the term of this Plan and while any Awards are outstanding, the Company will retain as authorized and/or unissued shares of Common Stock at least the number of Shares from time to time required under the provisions of this Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

#### ***(b) Treatment of Expired, Unvested Shares***

If an Award which expires or terminates for any reason or becomes unexercisable without having been exercised or settled in full in shares of Common Stock, the unpurchased Shares that were subject thereto or RSUs which have not been settled will become available for future grant or sale under this Plan. Shares that have actually been issued under this Plan will not be returned to this Plan and will not become available for future distribution under this Plan, except that if Restricted Shares are repurchased by the Company at their original purchase price and cancelled, such Shares will become available for future grant under this Plan.

### **4. Administration of this Plan**

#### **(a) Compensation Committee**

This Plan will be administered by the Compensation Committee. For so long as the Company has any class of equity security registered under Section 12 of the Exchange Act and the Company's executive officers and directors are subject to Section 16 of the Exchange Act, this Plan generally will be administered so as to cause transactions in securities issued or to be issued under this Plan to be afforded the exemptions from Section 16(b) of the Exchange Act provided by Rule 16b-3 under the Exchange Act or any similar successor statute or rules.

#### **(b) Powers of the Compensation Committee**

Subject to the provisions of this Plan and, in the case of the Compensation Committee, the specific duties delegated by the Board to the Compensation Committee, and subject to the approval of any relevant authorities, the Compensation Committee will have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to determine the types of Awards to be granted.

(iii) to select the Service Providers to whom Awards may from time to time be made;

(iv) to determine the number of Shares or RSUs to be covered by each Award granted;

(v) to approve forms of Award Agreement;

(vi) to determine the terms and conditions of any Award, including whether the vesting of Awards will be time-based, performance-based, milestone-based, or otherwise. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of restrictions, and any restriction or limitation regarding any Award or Shares relating thereto, based in each case on such factors as the Compensation Committee may determine; provided, that in no event may any Option or comparable Award granted under this Plan be amended, other than pursuant to Section 10, to decrease the exercise price thereof or otherwise be subject to any action that would be treated, for accounting purposes, as a "repricing" of such Option, unless such amendment, cancellation, or action is approved by the Company's shareholders;

(vii) to determine whether and under what circumstances an RSU may be settled in cash instead of shares of Common Stock;

(viii) to prescribe and amend provisions relating to this Plan, including provisions relating to sub-plans established for the purpose of qualifying for preferred tax treatment under applicable Tax Law;

(ix) to allow holders of Options or other Awards to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or other Award that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined. All elections by Holders to have Shares withheld for this purpose will be made in such form and under such conditions as the Compensation Committee may deem necessary or advisable; and

(x) to construe and interpret the terms of this Plan and Awards granted pursuant to this Plan.

(c) **Effect of Compensation Committee's Decisions**

All decisions, determinations and interpretations of the Compensation Committee under this Plan will be final and binding on all recipients and, if applicable, transferees of Awards under this Plan.

**5. Eligibility**

(a) **Service Providers**

Awards may be granted to Service Providers; provided, however, that U.S. Incentive Stock Options may be granted only to Employees of the Company, a Parent, a Subsidiary or a VIE and generally will be granted only to persons who are, or are expected to be, subject to tax on income under the U.S. Internal Revenue Code.

(b) **No Right to Continued Employment**

Neither this Plan nor any Award will confer upon any recipient or other holder of an Award any right with respect to continuing such recipient's or holder's relationship as a Service Provider with the Company, nor will it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause.

**6. Term of Options and RSUs**

The term of each Option, RSU or other Award will be stated in the Award Agreement. Notwithstanding the foregoing, with respect to U.S. Incentive Stock Options the term will be no more than ten (10) years from the date of grant thereof and with respect to U.S. Incentive Stock Options granted to a Holder who, at the time the Option is granted, owns shares representing more than ten percent of the voting power of all classes of shares of the Company or any Parent or Subsidiary or VIE, the term of such U.S. Incentive Stock Option will be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

**7. Option Exercise Price, Restricted Share Purchase Price, and Form of Consideration**

(a) **Exercise Price of Options and Purchase Price of Restricted Shares**

The exercise price for Shares to be issued upon exercise of an Option and the purchase price of Restricted Shares will be such price as is determined by the Compensation Committee, provided that with respect to a U.S. Incentive Stock Option, the exercise price for Shares to be issued upon exercise of such option will not be less than the Fair Market Value on the date of grant or issue. With respect to a U.S. Incentive Stock Option granted to a person who, at the time the U.S. Incentive Stock Option is granted, owns shares representing more than ten percent of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the per Share exercise price will not be less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(b) **Form of Consideration**

The consideration to be paid for Shares to be issued upon exercise of an Option and for Restricted Shares, including the method of payment, will be determined by the Compensation Committee. Such consideration may consist of:

(i) cash,

(ii) check payable to the order of the Company,

(iii) promissory note; provided, however, that consideration in the form of a promissory note will not be acceptable if it would constitute a personal loan to an executive officer or director of the Company prohibited by Section 402 of the U.S. Sarbanes-Oxley Act of 2002,

(iv) other Shares which (x) have been owned by the grantee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option is exercised or the aggregate purchase price of Restricted Shares being purchased,

(v) consideration received by the Company for the exercise of Options under a cashless exercise program implemented or approved by the Company in connection with this Plan, or

(vi) any combination of the foregoing methods of payment.

In making its determination as to the type of consideration to accept, the Compensation Committee will consider if acceptance of such consideration may be reasonably expected to benefit the Company.

## **8. Vesting of Awards**

### **(a) *Vesting Generally***

Any Options granted hereunder will become vested and exercisable, any RSUs granted hereunder will vest and be settled, and any Restricted Shares issued hereunder will vest and no longer be subject to forfeiture, according to the terms hereof at such times and under such conditions as determined by the Compensation Committee and set forth in the Award Agreement. Except in the case of an Award granted to Outside Directors and Consultants, unless the Compensation Committee determines otherwise, subject to approval of the full Board, as set forth in the Award Agreement, Options will vest and become exercisable, RSUs will vest and be settled, Restricted Shares will vest and no longer be subject to forfeiture, and other Awards will vest, in four equal annual installments beginning on the first anniversary of the date of grant or issuance of the Award or of such other vesting commencement date prior to the date of grant or issuance of the Award as specified by the Compensation Committee in its sole discretion.

### **(b) *Settlement of RSUs***

RSUs that will be settled upon vesting, subject to the terms of the Award Agreement, either by delivery to the holder of the number of Shares that equals the number of RSUs that then become vested or by the payment to the holder of cash equal to the then Fair Market Value of that number of Shares. It is contemplated that in most cases the Award Agreement will specify that settlement will be made in Shares rather than in cash.

### **(c) *Exercise of Options***

An Option will be deemed exercised when the Company receives:

(i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and

(ii) full payment for the Shares with respect to which the Option is exercised.

Full payment may consist of any consideration and method of payment authorized by the Compensation Committee and permitted by the Award Agreement and this Plan. Shares issued upon exercise of an Option will be issued in the name of the Holder or, if requested by the Holder, in the name of the Holder and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 10 below.

Exercise of an Option in any manner will result in a decrease in the number of Shares thereafter available, both for purposes of this Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

To the extent the aggregate Fair Market Value of Shares subject to U.S. Incentive Stock Options which become exercisable for the first time by a Holder during any calendar year (under all plans of the Company or any Parent or Subsidiary or VIE) exceeds \$100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, will be treated as Non-Qualified Stock Options. For this purpose, U.S. Incentive Stock Options will be taken into account in the order in which they were granted, and the Fair Market Value of the Shares will be determined as of the grant date of the relevant Option.

**(d) Termination of Relationship as Service Provider of Holder of Options**

If a Holder of Options ceases to be a Service Provider, such Holder may exercise his or her Options within such period of time as is specified in the Award Agreement to the extent that the Options are vested on the date of termination (but in no event later than the expiration of the term of the Options as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Options will remain exercisable for three (3) months following the Holder's termination. If, on the date of termination, the Holder is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Options will revert to this Plan. If, after termination, the Holder does not exercise his or her Options within the time specified by the Compensation Committee, the Options will terminate, and the Shares covered by such Options will revert to this Plan.

**(e) Disability of Holder of Options**

If a Holder of Options ceases to be a Service Provider as a result of the Holder's Disability, the Holder may exercise his or her Options within such period of time as is specified in the Award Agreement to the extent the Options are vested on the date of termination (but in no event later than the expiration of the term of such Options as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Options will remain exercisable for twelve (12) months following the Holder's termination.

If the Disability is not a "disability" as such term is defined in Section 22(e)(3) of the U.S. Internal Revenue Code, in the case of U.S. Incentive Stock Options, such U.S. Incentive Stock Options will automatically convert to U.S. Non-Qualified Stock Options on the day three (3) months and one day following the date such Holder ceased to be a Service Provider as a result of the Holder's Disability. If, on the date of termination, the Holder is not vested as to all of his Options, the Shares covered by the unvested Options will revert to this Plan. If, after termination, the Holder does not exercise his or her Options within the time specified herein, the Options will terminate, and the Shares covered by such Options will revert to this Plan.

**(f) Death of Holder of Options or RSUs**

If a Holder of Options dies while a Service Provider, the Options may be exercised within such period of time as is specified in the Award Agreement to the extent that the Options are vested on the date of death (but in no event later than the expiration of the term of such Options as set forth in the Award Agreement) by the Holder's estate or by a person who acquires the right to exercise the Options by bequest or inheritance. In the absence of a specified time in the Award Agreement, the Options will remain exercisable for twelve (12) months following the Holder's termination. If, at the time of death, the Holder is not vested as to all of his or her Options, the Shares covered by the unvested Options will immediately revert to this Plan. If the Options are not so exercised within the time specified herein, the Options will terminate, and the Shares covered by such Options will revert to this Plan.

**(g) Buyout Provisions**

The Compensation Committee may at any time offer to buy out any Awards previously granted for a payment in cash or Shares, based on such terms and conditions as the Compensation Committee may establish, provided that the Company, without the approval of the Company's stockholders, may not buy out any outstanding Option which, at the time of such buyout, has an exercise price per Share that is greater than the Fair Market Value at such time.

**9. Awards**

**(a) Rights to Receive or Purchase**

Awards may be issued either alone, in addition to, or in tandem with other Awards granted under this Plan and/or cash awards made outside of this Plan. After the Compensation Committee determines that it will offer Awards under this Plan, it will advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person will be entitled to receive or purchase, the price to be paid, if any, and the time within which such person must accept such offer.

(b) Repurchase Option; Forfeiture of Non-vested Shares

Unless the Compensation Committee determines otherwise, the Award Agreement will grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the Holder's service with the Company for any reason (including death or Disability) in the event that the Holder purchased or otherwise received Shares under the Award Agreement and such Shares are non-vested. The purchase price for Shares repurchased pursuant to the Award Agreement will be the original price paid by the Holder and may be paid, at the Compensation Committee's option, by cancellation of any indebtedness of the Holder to the Company. The repurchase option will lapse at such rate as the Compensation Committee may determine. Except with respect to Shares purchased by Outside Directors and Consultants, unless set forth expressly in the Award Agreement, the repurchase option will in no case lapse at a rate of less than twenty-five percent per year over four years from the date of receipt or purchase. Unless the Compensation Committee determines otherwise, the Award Agreement will provide for the forfeiture of the non-vested Shares underlying an Award upon the voluntary or involuntary termination of the Holder's service with the Company for any reason (including death or Disability).

(c) Other Provisions

The Award Agreement will contain such other terms, provisions and conditions not inconsistent with this Plan as may be determined by the Compensation Committee in its sole discretion.

(d) Rights as a Shareholder

Once an Award is exercised, the Holder will have rights equivalent to those of a shareholder and will be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Award is exercised, except as provided in Section 10 below.

**10. Adjustments Upon Changes in Capitalization or Asset Sale**

**(a) *Changes in Capitalization***

Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under this Plan but as to which Awards have yet been granted or which have been returned to this Plan upon cancellation or expiration of an Award, as well as the price per Share covered by each such outstanding Award, will be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a reclassification of the Shares, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company will not be deemed to have been "effected without receipt of consideration." Such adjustment will be made by the Compensation Committee, whose determination in that respect will be final and binding. Except as expressly provided herein, no issuance by the Company of equity shares of any class, or securities convertible into equity shares of any class, will affect, and no adjustment by reason thereof will be made with respect to, the number or price of Shares subject to an Award.

**(b) *Adjustments for Share Splits and Share Dividends***

If the Company at any time increases or decreases the number of its outstanding Shares, or changes in any way the rights and privileges of such Shares by means of the payment of a share dividend or any other distribution upon such Shares, or through a share split, subdivision, consolidation, combination, reclassification or recapitalization involving the Shares, then in relation to the Shares that are affected by one or more of the above events, the numbers, rights and privileges of the following will be increased, decreased or changed in like manner as if such Shares had been issued and outstanding, fully paid and nonassessable at the time of such occurrence: (i) the number of Shares as to which Awards may be made under this Plan; and (ii) the Shares included in each outstanding Award made hereunder.

**(c) *Dissolution or Liquidation***

In the event of the proposed dissolution or liquidation of the Company, the Compensation Committee will notify each Holder as soon as practicable prior to the effective date of such proposed transaction. The Compensation Committee in its discretion may provide for a Holder to have the right to exercise his or her Options until fifteen (15) days prior to such transaction as to all of the Underlying Shares covered thereby, including Shares as to which the Options would not otherwise be exercisable. In addition, the Compensation Committee may provide that any Company repurchase option applicable to any Shares purchased pursuant to an Award will lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

**(d) *Consolidation or Asset Sale***

If the Company is to be consolidated with or acquired by another person or entity in a sale of all or substantially all of the Company's assets or stock or otherwise (an "Acquisition"), the committee or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board") may in its sole discretion, take one or more of the following actions with respect to outstanding Options, Shares acquired upon exercise of any Option, outstanding RSUs, or unvested Restricted Shares: (i) make appropriate provision for the continuation of such Awards by substituting on an equitable basis for the Underlying Shares the consideration payable with respect to the outstanding Shares in connection with the Acquisition; (ii) accelerate the date of exercise of such Options, vesting and settlement of RSUs, or vesting of Restricted Shares, or of any installment of any such Options, RSUs or Restricted Shares; (iii) upon written notice to the participants, provide that all Options must be exercised, to the extent then exercisable, within a specified number of days of the date of such notice, at the end of which period the Options, including those which are not then exercisable, shall terminate; (iv) terminate all Options or RSUs in exchange for a cash payment equal to the excess of the fair market value of the shares subject to such Options or RSUs (to the extent then exercisable) over the exercise price thereof (if any); or (v) in the event of a Share sale, require that the participant sell to the purchaser to whom such Shares sale is to be made, all Shares previously issued to such participant upon exercise of any Option, pursuant to any RSU, or as Restricted Shares at a price equal to the portion of the net consideration from such sale which is attributable to such Shares. Nothing contained herein will be deemed to require the Company to take, or refrain from taking, any one or more of the foregoing actions.

**(e) *No Fractional Shares***

If any adjustment or substitution provided for in this Section 10 results in the creation of a fractional Share under any Option, the Company will, in lieu of issuing such fractional Share, pay to the Holder a cash sum in the amount equal to the product of such fraction multiplied by the Fair Market Value of a Share on the date the fractional Share otherwise would have been issued.

**(f) *Determination by the Compensation Committee***

Adjustments under this Section 10 will be made by the Compensation Committee whose determinations with regard thereto will be final and binding upon all parties.

**11. Time of Granting of Award**

The date of grant of an Award will be the date on which the Compensation Committee approves the grant of such Award, or such other date as is determined by the Compensation Committee; provided that such other date will not be prior to the date of the Compensation Committee's approval of the grant of such Award; provided, further, that the foregoing will not prohibit the Compensation Committee from determining, in its discretion, to specify a vesting commencement date prior to the date of the grant; and provided, further, that no grant of an Award will be binding upon the Company until it has been communicated to the Service Provider. Notice of the determination will be given to each Service Provider to whom an Award is so granted within a reasonable time after the date of such grant.

**12. Non-Transferability of Awards**

Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than as provided in the Award Agreement, this Plan, by will or by the laws of succession and may be exercised, during the lifetime of the Holder, only by the Holder.

### **13. Conditions Regarding Issuance of Shares**

#### **(a) Legal Compliance**

Shares will not be issued pursuant to the exercise of Options, the settlement of RSUs, or the purchase of Restricted Shares unless the issuance and delivery of such Shares will comply with Applicable Laws, and the issuance of Shares will be subject to confirmation from legal counsel for the Company as to such compliance.

#### **(b) Investment Representations**

The Compensation Committee may require the person receiving Shares upon exercise of Options, settlement of RSUs, or purchase of Restricted Shares to represent and warrant, as a condition to such receipt, that the Shares are being purchased only for investment and not with a view to the distribution of such Shares.

#### **(c) Inability to Obtain Authority**

The inability of the Company to obtain authority from any regulatory body having jurisdiction will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority has not been obtained.

#### **(d) Withholding**

The Company's obligations to deliver Shares upon the exercise of an Award will be subject to the Holder's satisfaction of all applicable Tax Law, including withholding requirements, of all applicable jurisdictions.

### **14. Amendment and Termination of this Plan**

#### **(a) Amendment and Termination**

The Board may at any time amend, suspend or terminate this Plan.

#### **(b) Shareholder Approval**

The Board will obtain shareholder approval of any Plan amendment to the extent necessary or desirable to comply with Applicable Laws.

#### **(c) Effect of Amendment or Termination**

Except as may be required by Applicable Law, no amendment, suspension or termination of this Plan will impair the rights of any Holder, unless agreed otherwise in writing between the Holder and the Compensation Committee. Termination of this Plan will not affect the Compensation Committee's ability to exercise the powers granted to it hereunder with respect to Awards granted under this Plan prior to the date of such termination.

### **15. Effectiveness and Term of Plan**

This Plan will become effective upon its adoption by the Board and approval by the Company's shareholders. It will continue in effect, with regard to the making of Awards, for a term of ten (10) years unless sooner terminated under Section 14 above and with regard to the terms of an Award Agreement, for such longer term as may be required to give effect to that Award Agreement for a term of ten (10) years unless sooner terminated under Section 14 above.

- Approved and adopted by the Board of Directors on June 21, 2010.
- Approved and adopted by the Company's stockholders on July 2, 2010.

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

English Translation

Cooperation Agreement

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Between

Wuxi Rongke Zhidi Real Estate Development Co., Ltd.

And

Wuxi Sohu New Momentum Investment Co., Ltd.

September 30, 2010

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This cooperation agreement (herein refer to “the Agreement”) is signed between parties as below on September 30, 2010:

- A Wuxi Sohu New Momentum Investment Co., Ltd., a foreign-funded company incorporated and existing according to the laws of China with registered address: No. 8, Anguo Road, Anzhen Street, Xishan District, Wuxi (“Sohu New Momentum”);
- B Wuxi Rongke Zhidi Real Estate Development Co., Ltd., a real estate development company incorporated and existing according to the laws of China with registered address: No. 88, Zhouxin Middle Road, Taihu Street, Binhu District, Wuxi (“Wuxi Rongke”);

Whereas

- 1 Wuxi Rongke intends to develop \* real estate project and \* residence project (“Real Estate Projects”) in Wuxi ;
- 2 Wuxi Rongke hopes to introduce funds to its development of the Real Estate Projects and Sohu New Momentum has agreed to provide funds.

Therefore, both parties enter an Agreement as follows:

1. Definitions and interpretations

1.1 Unless specified otherwise, the following terms are defined as below:

“Loan” refers to a loan of RMB 500 million in total provided by Sohu New Momentum to Wuxi Rongke according to provisions of this Agreement. The Loan can be provided by Sohu New Momentum through Wuxi Branch of Shanghai Pudong Development Bank Co., Ltd. (“Pudong Development Bank”) in the form of a consignment loan.

“Loan Pledge Agreement” refers to “Equity Pledge Agreement” signed between Beijing Rongke Zhidi Real Estate Development Co., Ltd. the shareholder of Wuxi Rongke, and Sohu New Momentum.

“China” refers to People’s Republic of China.

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

1.2 The laws of China

“The laws of China” as referred to in this Agreement includes any public promulgation of laws, regulations, rules, and regulatory documents officially issued by any authority of China (including central government, provinces, municipalities and others) and should be interpreted with terms corrected or modified from time to time. For purposes of this Agreement, “the laws of China” should exclude the laws of Hong Kong Special Administrative Zone, Macao Special Administrative Zone and Taiwan.

1.3 Titles

The titles of the terms in this Agreement are for reference only and should not affect the interpretation of this Agreement.

2. Amount and term of borrowing

- 2.1 The Loan provided by Sohu New Momentum to Wuxi Rongke is 500 million Yuan (RMB 500,000,000.00) in total. Sohu New Momentum may provide the Loan through Pudong Development Bank in the form of a consignment loan. Sohu New Momentum and Wuxi Rongke signed a consignment loan agreement with Pudong Development Bank. Both parties confirm that the agreed upon interest rate and term of the consignment loan agreement is consistent with this Agreement;
- 2.2 The borrowing term under this Agreement is one year from the date on which Sohu New Momentum issues the Loan to Wuxi Rongke to the one year anniversary (“Borrowing Term”) unless as provided below.
- 2.3 Notwithstanding the provisions above, within 30 days before the Borrowing Term expires, if Sohu New Momentum provides unilateral written notice, this Agreement shall be extended up to 6 months from the day after the expiration of the Borrowing Term. In the same way, within 30 days before the expiration of each extended Borrowing Term, if Sohu New Momentum provides unilateral written notice, this Agreement should be extended according to principles foresaid until the earlier of the following dates: (1) Sohu New Momentum to give written notice to Wuxi Rongke not to extend; or (2) Wuxi Rongke breaches the terms of this Agreement or requests termination of this Agreement before the schedule for any other reason that is reasonable in the opinion of Sohu New Momentum. The extension of the agreement shall become effective from the date on which Sohu New Momentum sends an extension notice to Wuxi Rongke.

3. Interest of borrowing

- 3.1 Unless otherwise agreed upon, the annual interest rate of the Loan provided by Sohu New Momentum to Wuxi Rongke is 3.8% under this Agreement.

3.2 Wuxi Rongke shall pay interest (the payment shall be paid through Pudong Development Bank for the consignment loan) to Sohu New Momentum on or before the 20th day of the end of each calendar quarter. If this Agreement is terminated before the schedule, Wuxi Rongke shall pay interest pro rata on the day when the principal of the Loan is repaid. All amounts under this Agreement shall be used to pay interest due first and then used to pay the outstanding Loan principal. If Wuxi Rongke fails to pay the interest due, interest will be accrued on such overdue interest from the due date of such interest and will be calculated at the same interest rate of the principal. Wuxi Rongke should remit all interests to a domestic RMB account designated by Sohu New Momentum and should not deduct bank commission charges, transfer fees, taxes or similar fees, except the fees allowed to be deducted under this Agreement.

4. Right to enjoy dividends

4.1 Under this Agreement, if the Borrowing Term is extended to March 31, 2014 through a written notice sent by Sohu New Momentum to Wuxi Rongke, Sohu New Momentum will enjoy 20% of after-tax profits of each of \* (“\*” which is an affiliate of Wuxi Rongke and has obtained the ownership of \* and is developing the \* real estate project) and \* (“\*” which is a subsidiary of Wuxi Rongke, which owns and is developing the \* real estate project) as dividends. The key points of \* and \* real estate projects developed by \* and \* that have been confirmed by both parties will be found in Appendix 1 of this Agreement.

4.2 If Sohu New Momentum enjoys right over dividends according to this term, it may choose the higher one between (1) interest that should be acquired at current year and (2) dividends of \* and \* that should be acquired according to this term as incomes receivable of Sohu New Momentum from lending funds to Wuxi Rongke. If Sohu New Momentum chooses dividends, the interest paid by Wuxi Rongke will become an integral part of the dividend and be deducted from the dividend.

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

4.3 If Sohu New Momentum choose dividends, Wuxi Rongke shall begin to calculate the dividends payable to Sohu New Momentum in terms of the following formula: “Dividends = (sale income at the current period X anticipated net profit of overall project – income tax belonging to current period) X 20%” and shall pay Sohu New Momentum on a quarterly basis. Sohu New Momentum has the right to require Wuxi Rongke, \* and \* to provide sale breakdowns and relevant financial data and to verify such information. Wuxi Rongke shall be responsible for coordinating and ensuring that \* and \* satisfy requirements of Sohu New Momentum and provide all relevant materials. Wuxi Rongke shall be responsible for coordinating and ensuring that \* and \* commit that no dividend is distributed before March 31, 2014.

5. Share transformation

If Sohu New Momentum choose dividends, in order to realize the dividend, Wuxi Rongke agrees after March 31, 2014 to urge shareholders of each of \* and \* to grant Sohu New Momentum the right for Sohu New Momentum or any third party appointed by Sohu New Momentum to purchase 20% of equity shares of \* and /or \* (the “Option”). Among them, the purchase price of the 20% of equity shares of \* is RMB 350 million and the purchase price of the 20% of equity shares of \* is RMB 150 million. Sohu New Momentum may exercise the Option to purchase 20% of equity shares of either of \* and \* or both. Wuxi Rongke agrees to require \* and \* and their shareholders to sign a “Letter of Agreement” specified in Appendix 2 when signing this Agreement.

6. Loan mortgage

6.1 To guarantee the repayment of the Loan, Wuxi Rongke shall provide Sohu New Momentum with the following loan mortgages:

- (a). Wuxi Rongke will cause its shareholder, Rongke Zhidi Real Estate Co., Ltd. to pledge 100% of the equity shares of Wuxi Rongke held by it to Sohu New Momentum. In connection therewith, Wuxi Rongke will cause its shareholder to sign an “Equity Pledge Agreement” with Sohu New Momentum as provided in Appendix 3 of this Agreement.
- (b). The effectiveness of above loan mortgage and relevant Equity Pledge Agreement should be independent form this Agreement. In any event, the invalidity of this Agreement does not affect the validity of any Equity Pledge Agreement.

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

7. Handling and Issuance of Loan

Within 20 business days after this Agreement becomes effective, Sohu New Momentum, Wuxi Rongke and Pudong Development bank shall work together to complete all procedures of the consignment loan.

Within 30 business days after this Agreement becomes effective, Sohu New Momentum shall issue the Loan to the bank account designated by Wuxi Rongke.

8. Purpose of Loan

The Loan under this Agreement should be used for development, sale and operation of the Real Estate Projects of Wuxi Rongke. Without the prior written approval of Sohu New Momentum, Wuxi Rongke cannot change the purpose of the borrowing unilaterally.

9. Repayment of Loan

- 9.1 Within 7 business days from the next business day of the expiration date of the Borrowing Term or termination of this Agreement before schedule, Wuxi Rongke shall pay off all unpaid principals and interests of the Loan to a bank account designated by Sohu New Momentum in full by means of one payment.
- 9.2 If Wuxi Rongke requests to repay the Loan to Sohu New Momentum before schedule, it should submit a written application to Sohu New Momentum 30 days in advance and then repay the Loan before the schedule after written agreement of Sohu New Momentum.
- 9.3 In the event of any of the following circumstances, Sohu New Momentum has the right to declare immediate expiration of the Loan, send a written notice to Wuxi Rongke to require immediate withdrawal of the Loan issued, take corresponding measures by law simultaneously and require Wuxi Rongke to bear the liabilities for breach of contract:
  - (a). Wuxi Rongke refuses to provide Sohu New Momentum with financial data or provides Sohu New Momentum with financial data that is false or withholds important financial data, or refuses to accept the supervision of Sohu New Momentum on the conditions of its Loan use and relevant activities of production, operation and finance;
  - (b). Wuxi Rongke clearly expresses or expresses by its conduct that it will not perform any obligations of this Agreement or fails to perform any obligation under this Agreement;

- (c). According to the reasonable judgment of Sohu New Momentum, any event that may adversely influence Wuxi Rongke's performance of the obligation under this Agreement, including without limitation Wuxi Rongke entering or possibly entering into, bankruptcy or liquidation procedure, insolvency, closure, major loss or damage, etc.
- (d). Wuxi Rongke seriously violates its obligations under other agreement(s), including without limitation bank borrowing contract, engineering construction contract, and other contracts, leading to serious legal liability, deteriorate financial conditions, or threaten its performance of the obligations under this Agreement;
- (e). Without the prior written consent of Sohu New Momentum, Wuxi Rongke directly or indirectly transfers or disposes all or any part of its Real Estate Projects or other significant assets; or Rongke Zhidi Real Estate Co., Ltd. directly or indirectly transfers the shares of Wuxi Rongke held by it.

10. Rights and obligations

10.1. The rights and obligations of Wuxi Rongke are as follows:

- (a). Wuxi Rongke ensures that the purpose of the Loan under this Agreement conforms to laws, rules, administrative regulations, regulations of departments, industrial codes and "Articles of Association" of the company and it has obtained all necessary related permits and authorizations.
- (b). Wuxi Rongke will accept the investigation, understanding and supervision of Sohu New Momentum on the conditions of use of the Loan under this Agreement.
- (c). Wuxi Rongke will actively cooperate with Sohu New Momentum in the investigation, understanding and supervision of the development, sale, operation and financial status of its Real Estate Projects; Wuxi Rongke will provide copies of financial statements of the three companies including Wuxi Rongke, \* and \* such as the Balance Sheet, Income Statement and Cash Flow Statement and corresponding audit report (if any) according to requirements of Sohu New Momentum.

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

- (d). Wuxi Rongke commits that, it will immediately notify Sohu New Momentum in writing if any event or circumstance places its normal operation or Real Estate Projects in danger or cause a significant threat to its performance of repayment obligation under this Agreement.
- (e). Wuxi Rongke should not transfer any of its obligations and debts under this Agreement to any third party.
- (f). Wuxi Rongke is responsible for handling and performing procedures related to the borrowing, principal repayment and loan mortgage under this Agreement, including, but not limited to procedures of review, approval, registration, approval or filing of mortgage. Sohu New Momentum shall provide relevant coordination and assistance.

10.2. The rights and obligations of Sohu New Momentum are as follows:

- (a). Sohu New Momentum ensures that it will issue the Loan to Wuxi Rongke according to provisions of this Agreement.
- (b). If Sohu New Momentum needs to transfer its creditor's rights under this Agreement to any third party, it does not need to obtain Wuxi Rongke's consent, but it shall notify Rongke after the creditor's right transfer agreement is signed.
- (c). Sohu New Momentum has the right to request the review of financial statements of Wuxi Rongke such as the Balance Sheet, Income Statement and Cash Flow Statement and corresponding audit report.

11. Liabilities for breach of contract

- 11.1 If Wuxi Rongke breaches Section 9.3 of this Agreement, according to this Agreement, Wuxi Rongke shall repay all loans and pay loan interest and a penalty, i.e., 20% of dividends of profits after tax of the then current year of \* and \* .

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



- 11.2 Right of offset: whereas Beijing Sohu New Media Information Technology Co., Ltd. (Sohu New Media) and Beijing Sohu New Momentum Information Technology Co., Ltd. (Beijing Sohu New Momentum), the related companies of Sohu New Momentum signed a “Beijing Commercial Housing Pre-sale Contract” with Beijing Rongke Zhidi Real Estate Development Co., Ltd, a related company of Wuxi Rongke, about purchasing Rongke Office Building D, and Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame Age”), a related company of Sohu New Momentum have signed a “Cooperation Agreement” with Beijing Rongke Jingyuan Real Estate Development Co., Ltd., a related company of Wuxi Rongke to purchase an office building, according to agreement foresaid, Beijing Sohu New Media Information Technology Co., Ltd., Beijing Sohu New Momentum Information Technology Co., Ltd. and Beijing AmazGame Age Internet Technology Co., Ltd. will pay for the building purchase to Beijing Rongke Zhidi Real Estate Development Co., Ltd. and Beijing Rongke Jingyuan Real Estate Development Co., Ltd. in phases. Therefore, Sohu New Momentum and Wuxi Rongke herein agree that, if Wuxi Rongke is required to pay any amount (including, but not limited to repayment of borrowing and payment of penalty) to Sohu New Momentum for any violation by Wuxi Rongke of any term of this Agreement, Sohu New Momentum has the right to deduct the corresponding amount from the payment for the building purchase that should be paid by Sohu New Media, Beijing Sohu New Momentum and AmazGame Age to Beijing Rongke Zhidi Real Estate Development Co., Ltd. and Beijing Rongke Jingyuan Real Estate Development Co., Ltd. to set off the amount payable by Wuxi Rongke to Sohu New Momentum. Both parties of this Agreement will urge Beijing Sohu New Media Information Technology Co., Ltd., and Beijing Sohu New Momentum Information Technology Co., Ltd., Beijing AmazGame Age Internet Technology Co., Ltd., Beijing Rongke Zhidi Real Estate Development Co., Ltd. and Beijing Rongke Jingyuan Real Estate Development Co., Ltd. to agree to this term and sign the “Letter of Agreement” provided in Appendix 4.
- 11.3 During the effective period of this Agreement, any behavior of any party in violation of any term of this Agreement will constitute a breach of the Agreement. The breaching party shall compensate for the loss of the non-breach party caused by such breach.

12. Confidentiality

- 12.1 Both parties agree on that all contents of this Agreement, any confidential information communicated or provided by another party and the fact that both parties have signed this Agreement (confidential information in general) shall be kept secret and not be disclosed or leaked to any third party in any form or name except in the following circumstances:
- (a) Both parties may provide the confidential information to their respective parent companies/institutions;

- (b) Both parties may provide the confidential information to their own legal consultants, financial consultants or professional or voluntary legal consultants (consultants). However, both parties shall ensure that their own consultants keep the confidential information secret;
- (c) Both parties may provide the confidential information to the government authorities whose approvals are required for the effectiveness of the transaction;
- (d) Both parties may disclose confidential information according to the provisions of applicable laws or relevant stock exchanges or requirements of judiciary authorities;
- (e) If confidential information is disclosed or leaked by any third party for any reason, both parties may in good faith clarify the situation according to the disclosure or leakage of confidential information;
- (f) Both parties agree in writing to disclose any confidential information to the media or any other third party.

12.2 This term will survive the termination of this Agreement.

13. Applicable law and dispute resolution

13.1 The agreement is governed and interpreted with laws of China.

13.2 Both parties should make all reasonable efforts to amicably settle any dispute arising out of or related to this Agreement, including any problems (disputes) related to its existence, effectiveness, performance or termination. If one party notifies the other party that a dispute has occurred and both parties fail to settle the dispute within 30 business days from the date on which the notice arrives, the dispute shall be submitted to the China International Economic and Trade Arbitration Commission (Arbitration Commission) and arbitrated according to the arbitration rules applicable when the applying for arbitration in Beijing. The rules will be deemed as an integral part of this Agreement during its period of its effectiveness. The arbitration court is composed of three arbitrators. Among them two are selected by applicant and respondent respectively or appointed by director of Arbitration Commission under consignment within 15 days from the date on which the arbitration notices are received by the parties. If applicant and respondent fail to select or entrust the director of Arbitration Commission with appointing the arbitrators, the director of Arbitration Commission will appoint the arbitrators. The third arbitration, the chief arbitrator, should be jointly selected by both parties or appointed by the director of Arbitration Commission under joint consignment of both parties. The arbitration language is Chinese.

13.3 Decision of arbitration should be final and binding upon both parties (whether or not they are parties to the arbitration proceedings), and can be enforced by any court or judiciary authority with jurisdiction over the arbitration decision and the parties and their properties.

13.4 During arbitration, this Agreement shall be performed continually except the part in dispute and arbitration.

14. Notice

14.1 Any notice or communication under this Agreement shall be prepared in writing and written in Chinese, signed by the party to deliver or communicate, and sent to the address of the other party specified in Section 14 or as updated from time to time by fax, registration letter, express mail or email. In the absence of evidence of receipt at an earlier time, the notice sent by fax, registered letter, express or email should be deemed to be served as follows:

- (a). 12 hours after the notice is sent by fax;
- (b). 7 business days after the notice is posted by registered letter for non international letter and 10 business days for international letter;
- (c). 5 business days after the notice is sent by express for non international letter and 10 business for international letter;
- (d). 12 hours after the notice is sent by email.

14.2 For the purpose of Term 11, the addresses of both parties are as follows:

Wuxi Sohu New Momentum Investment Co., Ltd.:

address: F 15, Sohu Network Building, Zhongguancun East Road No.1, Haidian District, Beijing

Recipient: Zhou Jing      E-mail: jasminezhou@sohu-inc.com

Mobile phone: 13910923092      Fax: 010-62726588

Wuxi Rongke Zhidi Real Estate Development Co., Ltd.:

address: Old Building of Hubin Hotel, Huanhu Road No. 1, Hubin District, Wuxi

Recipient: Fu Liping      E-mail: [fulp@raycomchina.com](mailto:fulp@raycomchina.com)

Mobile phone: 15061580017      Fax: 0510-85132805

15. Other terms

- 15.1 This agreement shall be binding on inheritor(s) and assignee(s) of both parties. Without the written consent of the other party, no party should transfer any of its rights and obligations under this Agreement to any third party.
- 15.2 Any omission or delay of any party for any right, power or privilege under this Agreement shall not be deemed as wavier of this right, power or privilege. Any wavier or partial wavier of any right, power or privilege shall not influence any future exercise of the right, power and privilege.
- 15.3 Invalidation or unenforceability of any term or any part of a term in this Agreement shall not influence the validity or enforceability of the other terms or the uninfluenced parts of the terms, or the validity or enforceability of this Agreement. Especially if any or all terms of this Agreement are invalid according to decision of the arbitration court or a court with jurisdiction for any reason, the effectiveness of the other terms of this Agreement or loan mortgage agreement signed by related parties will not be influenced or impaired.
- 15.4 This Agreement is effective from the date on which the respective legal representatives or authorized representatives of both parties sign it to the date when all rights and obligations under this Agreement have been performed. No modification is allowed without the written consent of both parties.
- 15.5 If during the performance of this Agreement, this Agreement needs to be modified and both parties agree to modify the Agreement, both parties will sign a separated supplementary agreement.
- 15.6 This Agreement is written in Chinese in four copies. Each party holds two copies with the same legal effect.
- 15.7 If there is any conflict between any term of this Agreement and any agreement (such as the consignment loan contract) signed between both parties of this Agreement about a loan matter, this Agreement shall prevail.

(No text below)

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

This Agreement is signed by the legal representatives or the duly authorized representatives of both parties on the date specified on the first page.

Wuxi Sohu New Momentum Investment Co., Ltd. (seal)

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Authorized representative: Yu Chuyuan

Position: Chairman

Wuxi Rongke Zhidi Real Estate Development Co., Ltd. (seal)

Authorized representative: Sun Jie

Position: Chairman

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 8, 2010

/s/ CHARLES ZHANG

Charles Zhang

Chief Executive Officer and Chairman of the  
Board of Directors

I, Carol Yu, certify that:

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

Dated: November 8, 2010

/s/ Carol Yu

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Carol Yu

Co-President and Chief Financial Officer



## SOHU.COM INC.

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

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

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

/s/ CHARLES ZHANG

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Charles Zhang

Chief Executive Officer and Chairman of the Board of Directors

November 8, 2010

## SOHU.COM INC.

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

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

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

/s/ CAROL YU

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Carol Yu

Co-President and Chief Financial Officer

November 8, 2010