SOHU COM INC
Form 10-Q
November 03, 2017
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017**

**OR**

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

**COMMISSION FILE NUMBER 0-30961**

**Sohu.com Inc.**

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

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

**Level 18, SOHU.com Media Plaza**

**Block 3, No. 2 Kexueyuan South Road, Haidian District**

**Beijing 100190**

**People s Republic of China**

**(011) 8610-6272-6666**

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

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

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

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

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

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

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

| Class | Outstanding at September 30, 2017 |
| --- | --- |
| **Common stock, $.001 par value** | **38,881,382** |

**SOHU.COM INC.**

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## PART I FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### SOHU.COM INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

**(In thousands, except par value)**

| | As of December 31, 2016 | As of September 30, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,050,957 | $ 1,040,564 |
| Restricted cash | 0 | 1,501 |
| Short-term investments | 247,926 | 304,264 |
| Accounts receivable, net | 189,167 | 280,372 |
| Assets held for sale | 103,079 | 0 |
| Prepaid and other current assets (including $29,019 and $31,213, respectively, due from a related party as of December 31, 2016 and September 30, 2017) | 260,133 | 228,206 |
| Total current assets | 1,851,262 | 1,854,907 |
| Fixed assets, net | 503,631 | 529,734 |
| Goodwill | 68,290 | 70,957 |
| Long-term investments, net | 74,273 | 86,585 |
| Intangible assets, net | 32,131 | 31,463 |
| Restricted time deposits | 269 | 270 |
| Prepaid non-current assets | 4,734 | 4,205 |
| Other assets | 29,100 | 27,162 |
| Total assets | $ 2,563,690 | $ 2,605,283 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable (including accounts payable of consolidated variable interest entities ( VIEs ) without recourse to the Company of $15,824 and $56,945, respectively, as of December 31, 2016 and September 30, 2017) | $ 193,209 | $ 270,939 |
| Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of $96,695 and $79,203, respectively, as of December 31, 2016 and September 30, 2017) | 324,876 | 342,555 |
| Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of $44,797 and $48,307, respectively, as of December 31, 2016 and September 30, | 118,951 | 131,723 |

| | | |
|---|---|---|
| 2017) | | |
| Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of $10,306 and $7,770, respectively, as of December 31, 2016 and September 30, 2017) | 92,475 | 72,635 |
| Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of $11,475 and $12,099, respectively, as of December 31, 2016 and September 30, 2017) | 40,014 | 73,118 |
| Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2016 and September 30, 2017) | 0 | 61,027 |
| Liabilities held for sale (including liabilities held for sale of consolidated VIEs without recourse to the Company of $3,232 and nil, respectively, as of December 31, 2016 and September 30, 2017) | 3,902 | 0 |
| Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of $89,994 and $77,106, respectively, as of December 31, 2016 and September 30, 2017, and due to a related party of $28,678 and $30,525, respectively, as of December 31, 2016 and September 30, 2017) | 159,315 | 146,115 |
| Total current liabilities | 932,742 | 1,098,112 |
| Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of nil as of both December 31, 2016 and September 30, 2017) | 744 | 778 |
| Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of $13,463 and $14,072, respectively, as of December 31, 2016 and September 30, 2017) | 32,625 | 30,901 |
| Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of $1,273 and $3,954, respectively, as of December 31, 2016 and September 30, 2017) | 39,784 | 45,860 |
| Total long-term liabilities | 73,153 | 77,539 |
| Total liabilities | 1,005,895 | 1,175,651 |
| Commitments and contingencies | | |
| **SHAREHOLDERS EQUITY** | | |
| Sohu.com Inc. shareholders equity: | | |
| Common stock: $0.001 par value per share (75,400 shares authorized; 38,742 shares and 38,881 shares, respectively, issued and outstanding as of December 31, 2016 and September 30, 2017) | 45 | 45 |
| Additional paid-in capital | 821,867 | 840,483 |
| Treasury stock (5,889 shares as of both December 31, 2016 and September 30, 2017) | (143,858) | (143,858) |
| Accumulated other comprehensive income | 3,220 | 31,192 |
| Retained earnings | 312,306 | 51,915 |
| Total Sohu.com Inc. shareholders equity | 993,580 | 779,777 |
| Noncontrolling interest | 564,215 | 649,855 |
| Total shareholders equity | 1,557,795 | 1,429,632 |

| | | |
|---|---|---|
| Total liabilities and shareholders equity | $ 2,563,690 | $ 2,605,283 |

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

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**SOHU.COM INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

**(In thousands, except per share data)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2016** | **2017** | **2016** | **2017** |
| Revenues: | | | | |
| Online advertising: | | | | |
| Brand advertising (including revenues generated from a related party of nil for both the three months ended September 30, 2016 and the three months ended September 30, 2017, and of $862 and nil, respectively, for the nine months ended September 30, 2016 and 2017) | $ 110,871 | $ 74,832 | $ 349,261 | $ 242,315 |
| Search and search-related advertising | 150,667 | 225,363 | 444,633 | 554,145 |
| Subtotal of online advertising revenues | 261,538 | 300,195 | 793,894 | 796,460 |
| Online games | 98,553 | 132,427 | 300,309 | 340,150 |
| Others | 50,491 | 83,439 | 144,469 | 214,722 |
| Total revenues | 410,582 | 516,061 | 1,238,672 | 1,351,332 |
| Cost of revenues: | | | | |
| Online advertising: | | | | |
| Brand advertising | 102,137 | 75,733 | 281,427 | 280,660 |
| Search and search-related advertising | 76,457 | 115,422 | 210,547 | 294,221 |
| Subtotal of cost of online advertising revenues | 178,594 | 191,155 | 491,974 | 574,881 |
| Online games | 23,719 | 17,560 | 75,232 | 45,678 |
| Others | 20,571 | 53,679 | 60,783 | 138,908 |
| Total cost of revenues | 222,884 | 262,394 | 627,989 | 759,467 |
| Gross profit | 187,698 | 253,667 | 610,683 | 591,865 |
| Operating expenses: | | | | |
| Product development | 90,007 | 105,162 | 261,645 | 289,406 |
| Sales and marketing (including expenses generated for a related party of nil for both the three months ended September 30, 2016 and the three months ended September 30, 2017, and of $216 and nil, respectively, for the nine months ended September 30, 2016 and 2017) | 110,584 | 111,935 | 318,597 | 296,866 |

| | | | | |
|---|---|---|---|---|
| General and administrative | 38,670 | 31,038 | 95,927 | 87,045 |
| Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions | 0 | 86,882 | 0 | 86,882 |
| Total operating expenses | 239,261 | 335,017 | 676,169 | 760,199 |
| Operating loss | (51,563) | (81,350) | (65,486) | (168,334) |
| Other income /(loss) | 3,678 | (5,068) | (16,971) | 2,337 |
| Interest income (including interest income generated from a related party of $294 and $295, respectively, for the three months ended September 30, 2016 and 2017, and $956 and $859, respectively, for the nine months ended September 30, 2016 and 2017) | 6,327 | 6,497 | 17,448 | 16,781 |
| Interest expense (including interest expense generated from a related party of $184 and $185, respectively, for the three months ended September 30, 2016 and 2017, and $488 and $537, respectively, for the nine months ended September 30, 2016 and 2017) | (209) | (1,141) | (1,151) | (1,521) |
| Exchange difference | 702 | (5,032) | 3,546 | (10,326) |
| Loss before income tax expense | (41,065) | (86,094) | (62,614) | (161,063) |
| Income tax expense | (974) | (15,927) | (15,272) | (39,363) |
| Net loss | (42,039) | (102,021) | (77,886) | (200,426) |
| Less: Net income attributable to the noncontrolling interest shareholders | 32,775 | 1,939 | 80,238 | 59,965 |
| Net loss attributable to Sohu.com Inc. | $ (74,814) | $ (103,960) | $ (158,124) | $ (260,391) |
| Net loss | (42,039) | (102,021) | (77,886) | (200,426) |
| Foreign currency translation adjustments | (7,619) | 19,015 | (35,031) | 41,152 |
| Change in unrealized gain /(loss) for available-for-sale securities | (693) | 12,496 | (2,121) | 11,245 |
| Other comprehensive income/(loss) | (8,312) | 31,511 | (37,152) | 52,397 |
| Comprehensive loss | (50,351) | (70,510) | (115,038) | (148,029) |
| Less: Comprehensive income attributable to noncontrolling interest shareholders | 29,724 | 13,808 | 67,275 | 84,390 |
| Comprehensive loss attributable to Sohu.com Inc. | $ (80,075) | $ (84,318) | $ (182,313) | $ (232,419) |
| Basic net loss per share attributable to Sohu.com Inc. | $ (1.93) | $ (2.67) | $ (4.09) | $ (6.70) |
| Shares used in computing basic net income per share attributable to Sohu.com Inc. | 38,728 | 38,877 | 38,695 | 38,848 |
| Diluted net loss per share attributable to Sohu.com Inc. | $ (1.94) | $ (2.67) | $ (4.12) | $ (6.72) |

| | | | | |
|---|---|---|---|---|
| Shares used in computing diluted net income per share attributable to Sohu.com Inc. | 38,728 | 38,877 | 38,695 | 38,848 |

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

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**SOHU.COM INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

**(In thousands)**

| | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (77,886) | $ (200,426) |
| Adjustments to reconcile net income /(loss) to net cash provided by operating activities: | | |
| Amortization of intangible assets and purchased video content in prepaid expense | 105,773 | 110,883 |
| Depreciation | 53,769 | 61,000 |
| Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions | 0 | 86,882 |
| Impairment of other intangible assets and other assets | 6,027 | 44,989 |
| Provision for allowance for doubtful accounts | 4,341 | 4,403 |
| Share-based compensation expense | 16,147 | 22,455 |
| Investment loss from equity investments | 1,006 | 850 |
| Impairment of available-for-sale securities | 0 | 5,754 |
| Change in fair value of financial instruments | (7,732) | (5,566) |
| Others | (407) | (434) |
| Changes in assets and liabilities, net of acquisition: | | |
| Accounts receivable | 56,560 | (84,542) |
| Prepaid and other assets | 7,520 | 21,101 |
| Accounts payable | 17,507 | 20,624 |
| Accrued liabilities and other short-term liabilities | 64,720 | (44,733) |
| Receipts in advance and deferred revenue | (2,792) | 7,432 |
| Taxes payable | (35,520) | 26,463 |
| Deferred tax | 5,191 | 6,837 |
| Net cash provided by operating activities | 214,224 | 83,972 |
| Cash flows from investing activities: | | |
| Purchase of financial instruments | (282,000) | (568,686) |
| Purchase of fixed assets | (89,990) | (64,764) |
| Purchase of intangible and other assets | (134,513) | (46,310) |
| Purchase of long-term investments | (12,940) | (7,680) |
| Matching loan to a related party | (18,115) | 0 |
| Cash released from restricted time deposits and time deposits, net | 225,462 | 0 |
| Proceeds from financial instruments | 295,591 | 500,344 |
| Return of funds from a third party | 3,619 | 4,928 |
| Other cash proceeds/(payments) related to investing activities | 3,840 | (3,065) |
| Net cash used in investing activities | (9,046) | (185,233) |

| | | |
|---|---|---|
| Cash flows from financing activities: | | |
| Proceeds from short-term bank loan | 0 | 67,785 |
| Matching loan from a related party | 17,041 | 0 |
| Exercise of share-based awards in subsidiaries | 291 | 493 |
| Repayments of loans from banks | (344,500) | (6,914) |
| Repurchase of Sogou Class A Common Shares from noncontrolling shareholders | 0 | (3,190) |
| Other cash payments related to financing activities | (423) | (909) |
| Net cash provided by/(used in) financing activities | (327,591) | 57,265 |
| Effect of exchange rate changes on cash and cash equivalents | (20,427) | 21,919 |
| Reclassification of cash and cash equivalents from assets held for sale | (10,280) | 11,684 |
| Net decrease in cash and cash equivalents | (153,120) | (10,393) |
| Cash and cash equivalents at beginning of period | 1,245,205 | 1,050,957 |
| Cash and cash equivalents at end of period | $ 1,092,085 | $ 1,040,564 |
| Supplemental cash flow disclosures: | | |
| Barter transactions recognized in revenue | $ 9,259 | $ 4,771 |
| Supplemental schedule of non-cash investing activity: | | |
| Changes in payables and other liabilities related to fixed assets and intangible assets additions | 0 | 54,071 |

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

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**SOHU.COM INC.**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)**

**Nine Months Ended September 30, 2016**

(In thousands)

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

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

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**SOHU.COM INC.**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)**

**Nine Months Ended September 30, 2017**

(In thousands)

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

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

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**SOHU.COM INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## 1. THE COMPANY AND BASIS OF PRESENTATION

***Nature of Operations***

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

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

***Sohu s Business***

*Brand Advertising Business*

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

**Sohu Media Portal.** Sohu Media Portal is a leading online news and information provider in China. It provides users comprehensive content through www.sohu.com for PCs, the mobile phone application Sohu News APP and the mobile portal m.sohu.com;

**Sohu Video.** Sohu Video is a leading online video content and service provider in China through tv.sohu.com for PCs and the mobile phone application Sohu Video APP; and

**Focus.** Focus (www.focus.cn) is a leading online real estate information and services provider in China.

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

*Other Sohu Business*

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

***Sogou s Business***

*Search and Search-related Business*

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

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

*Other Sogou Business*

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

***Changyou s Business***

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

*Online Game Business*

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

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

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

*Platform Channel Business*

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

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

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

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

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

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

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

*Cinema Advertising Business*

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

***Basis of Consolidation and Recognition of Noncontrolling Interest***

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

*VIE Consolidation*

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

*Noncontrolling Interest Recognition*

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

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***Noncontrolling Interest for Sogou***

*Sogou s Share Structure*

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

(i) Sohu.com Inc.: 130,920,250 Class A Ordinary Shares, of which 3,707,000 shares may be purchased by Sohu management and key employees under an option arrangement;

(ii) Photon Group Limited, an investment vehicle of the Sohu Group s Chairman and Chief Executive Officer Charles Zhang ( Photon ): 32,000,000 Series A Preferred Shares;

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

(iv) Various employees of Sogou and Sohu: 21,716,831 Class A Ordinary Shares.

*Sohu s Shareholding in and Control of Sogou*

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

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

*Principles of Allocation of Sogou s Profit and Loss*

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

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

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

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

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

Net income from Sogou is allocated in the following order:

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

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

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

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

(v) further net income is allocated between Sohu.com Inc. and noncontrolling shareholders based on their shareholding percentages in Sogou.

*Key Terms of Sogou Preferred Shares*

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

(i) Dividend Rights

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

(ii) Liquidation Rights

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

(iii) Redemption Rights

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

(iv) Conversion Rights

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

(v) Voting Rights

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

(vi) Other Rights

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

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

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

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

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

***Noncontrolling Interest for Changyou***

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

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

***Basis of Presentation***

These financial statements have been prepared in accordance with generally accepted accounting principles ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2016.

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

**2. SEGMENT INFORMATION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note (4):

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

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

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

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

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

**3. SHARE-BASED COMPENSATION EXPENSE**

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

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

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

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

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

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

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***Sohu Video Share-based Awards***

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

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

***Share-based Compensation Expense Recognition***

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

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

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

| **Share-based compensation expense** | **Three Months Ended September 30, 2016** | **Three Months Ended September 30, 2017** | **Nine Months Ended September 30, 2016** | **Nine Months Ended September 30, 2017** |
|---|---|---|---|---|
| For Sohu (excluding Sohu Video) share-based awards | $ 5,639 | $ 4,086 | $ 4,749 | $ 4,088 |
| For Sogou share-based awards (2) | 180 | 310 | 2,505 | 5,302 |
| For Changyou share-based awards | 7,202 | 2,208 | 9,340 | 17,223 |

| | | | | |
|---|---|---|---|---|
| For Sohu Video share-based awards (1) | 149 | (50) | (447) | (149) |
| | $ 13,170 | $ 6,554 | $ 16,147 | $ 26,464 |

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

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

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

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

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## 4. RELATED PARTY TRANSACTIONS

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

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

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

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

**Other Information**

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

## 5. INTRA-GROUP LOAN AND SHARE PLEDGE AGREEMENT

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

Also on October 24, 2016, Sohu.com (Game) Limited ( Sohu Game ), a Cayman Islands company that is an indirect subsidiary of Sohu and is the direct parent of Changyou, and Changyou entered into a share pledge agreement (the Share Pledge Agreement ) pursuant to which Sohu Game pledged to Changyou 11,386,228 Class B ordinary shares of

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

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

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## 6. FAIR VALUE MEASUREMENTS

***Fair Value of Financial Instruments***

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

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

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

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

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

***Financial Instruments Measured at Fair Value***

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

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

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

**Fair value measurements at reporting date using**

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

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*Cash Equivalents*

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

*Short-term Investments*

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

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

*Available-for-Sale Equity Securities*

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

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

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

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*Assets and Liabilities Held for Sale*

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

*Foreign Exchange Forward Contracts*

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

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

***Other Financial Instruments***

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

***Long-term Investments***

*Long-term Investment in Fox Financial*

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

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

*Long-term Investment in Zhihu*

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

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***Short-term Receivables and Payables***

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

*Short-term Bank Loans*

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

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

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

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

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

*Long-term Payables*

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

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

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## 7. IMPAIRMENT OF PURCHASED VIDEO CONTENT

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

## 8. GOODWILL

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

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

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

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

**9. TAXATION**

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

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**PRC Corporate Income Tax**

*Principal Entities Qualified as HNTEs*

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

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

*For Sohu s Business*

Beijing Sohu New Momentum Information Technology Co., Ltd. ( Sohu New Momentum ). Sohu New Momentum qualified as an HNTE for the years 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.

Beijing Sohu Internet Information Service Co., Ltd. ( Sohu Internet ). Sohu Internet qualified as an HNTE for the years 2015 to 2017, and will need to re-apply for HNTE qualification in 2018.

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

*For Sogou s Business*

Beijing Sogou Information Service Co., Ltd. ( Sogou Information ). Sogou Information qualified as an HNTE for the years 2015 to 2017, and will need to re-apply for HNTE qualification in 2018.

Beijing Sogou Technology Development Co., Ltd. ( Sogou Technology ). Sogou Technology re-applied for HNTE qualification in September 2017. Pending approval of its re-application, Sogou Technology is entitled to continue to enjoy the beneficial tax rate as if it had already qualified as an HNTE for 2017.

Beijing Sogou Network Technology Co., Ltd. ( Sogou Network ). Sogou Network qualified as an HNTE for the years 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.

*For Changyou s Business*

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

Beijing Changyou Gamespace Software Technology Co., Ltd. ( Gamespace ). Gamespace qualified as HNTE for the years 2017 to 2019, and will need to re-apply for HNTE qualification in 2020.

***Principal Entities Qualified as Software Enterprises and KNSEs***

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

*For Sohu s Business*

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

*For Sogou s Business*

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

*For Changyou s Business*

AmazGame. In the second quarter of 2017, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2016, and will follow the same process in 2018 for KNSE status for 2017. In the third quarter of 2017, AmazeGame was qualified as a KNSE after the relevant government authorities assessment and was entitled to a preferential income tax rate of 10% for 2016.

Baina (Wuhan) Information Technology Co., Ltd. ( Wuhan Baina Information ). In the second quarter of 2017, Wuhan Baina Information completed a self-assessment and filed required supporting documents to entitle it to the first year of an income tax exemption as a Software Enterprise for 2016, and will follow the same process in 2018 to entitle it to the second year of an income tax exemption for 2017.

***PRC Withholding Tax on Dividends***

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

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

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

***PRC Value-Added Tax***

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

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

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

### *Uncertain Tax Positions*

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

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

## 10. COMMITMENTS AND CONTINGENCIES

### *Contractual Obligations*

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

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

***Litigation***

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

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*PRC Law and Regulations*

The Chinese market in which the Sohu Group operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability to operate an Internet business and to conduct brand advertising, search and search-related advertising, online game, and other services in the PRC. Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the telecommunication, information, and media industries remain highly regulated. Restrictions are currently in place and are unclear with respect to which segments of these industries foreign-owned entities, like the Sohu Group, may operate. The Chinese government may issue from time to time new laws or new interpretations of existing laws to regulate areas such as telecommunication, information and media. The Sohu Group s legal structure and scope of operations in China could be subject to restrictions, which could result in limits on its ability to conduct business in the PRC. Certain risks related to PRC law that could affect the Sohu Group s VIE structure are discussed in Note 11 - VIEs.

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

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

**11. VIES**

*Background*

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

*VIEs Consolidated within the Sohu Group*

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

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

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

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

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

***Basic Information for Principal VIEs and Subsidiaries of Principal VIEs***

*For Sohu   s Business*

High Century

Beijing Century High Tech Investment Co., Ltd. (   High Century   ) was incorporated in 2001. As of September 30, 2017, the registered capital of High Century was $4.6 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.

Heng Da Yi Tong

Beijing Heng Da Yi Tong Information Technology Co., Ltd. (   Heng Da Yi Tong   ) was incorporated in 2002. As of September 30, 2017, the registered capital of Heng Da Yi Tong was $1.2 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.

Sohu Internet

Sohu Internet was incorporated in 2003. As of September 30, 2017, the registered capital of Sohu Internet was $1.6 million and High Century held a 100% interest in this entity.

Donglin

Beijing Sohu Donglin Advertising Co., Ltd. (   Donglin   ) was incorporated in 2010. As of September 30, 2017, the registered capital of Donglin was $1.5 million and Sohu Internet held a 100% interest in this entity.

Tianjin Jinhu

Tianjin Jinhu Culture Development Co., Ltd. ( Tianjin Jinhu ) was incorporated in 2011. In October, 2016, Ye Deng transferred its 50% equity interest in Tianjin Jinhu to Xiufeng Deng. As of September 30, 2017, the registered capital of Tianjin Jinhu was $0.5 million and Xiufeng Deng and Xuemei Zhang each held a 50% interest in this entity.

Guangzhou Qianjun

Guangzhou Qianjun was acquired in November 2014. As of September 30, 2017, the registered capital of Guangzhou Qianjun was $3.3 million and Tianjin Jinhu held a 100% interest in this entity.

Focus Interactive

Beijing Focus Interactive Information Service Co., Ltd. ( Focus Interactive ) was incorporated in July 2014. As of September 30, 2017, the registered capital of Focus Interactive was $1.6 million and Heng Da Yi Tong held 100% of the equity interests in this entity.

*For Sogou s Business*

Sogou Information

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

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*For Changyou s Business*

Gamease

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

Guanyou Gamespace

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

Shanghai ICE

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

Wuhan Baina Information

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

***Financial Information***

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

| | As of December 31, 2016 | As of September 30, 2017 |
|---|---|---|
| ASSETS: | | |
| Cash and cash equivalents | $ 94,859 | $ 55,414 |
| Accounts receivable, net | 72,151 | 97,153 |
| Prepaid and other current assets | 86,722 | 29,986 |
| Assets held for sale | 12,551 | 0 |
| Intra-Group receivables due from the Company s subsidiaries | 197,438 | 386,656 |

| | | |
|---|---|---|
| Total current assets | 463,721 | 569,209 |
| Long-term investments, net | 17,472 | 30,240 |
| Fixed assets, net | 4,372 | 3,023 |
| Intangible assets, net | 14,545 | 12,405 |
| Goodwill | 35,161 | 36,989 |
| Other non-current assets | 4,052 | 2,871 |
| Total assets | $ 539,323 | $ 654,737 |
| LIABILITIES: | | |
| Accounts payable | $ 15,824 | $ 56,945 |
| Accrued liabilities | 96,695 | 79,203 |
| Receipts in advance and deferred revenue | 44,797 | 48,307 |
| Liabilities held for sale | 3,232 | 0 |
| Other current liabilities | 111,775 | 96,975 |
| Intra-Group payables due to the Company s subsidiaries | 129,431 | 169,452 |
| Total current liabilities | 401,754 | 450,882 |
| Long-term taxes payable | 13,463 | 14,072 |
| Deferred tax liabilities | 1,273 | 3,954 |
| Intra-Group payables due to the Company s subsidiaries | 19,620 | 20,492 |
| Total liabilities | $ 436,110 | $ 489,400 |

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

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

***Summary of Significant Agreements Currently in Effect***

*Agreements Between Subsidiaries, Consolidated VIEs and Nominee Shareholders*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Business Arrangements Between Subsidiaries and Consolidated VIEs*

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

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

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

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

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

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

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

*VIE-Related Risks*

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

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

The Sohu Group s operations and businesses rely on the operations and businesses of its VIEs, which hold certain recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include goodwill and intangible assets acquired through business acquisitions. Goodwill primarily represents the expected synergies from combining an acquired business with the Sohu Group. Intangible assets acquired through business acquisitions mainly consist of customer relationships, non-compete agreements, user bases, copyrights, trademarks and developed technologies. Unrecognized revenue-producing assets mainly consist of licenses and intellectual property. Licenses include operations licenses, such as Internet information service licenses and licenses for providing content.

Intellectual property developed by the Sohu Group mainly consists of patents, copyrights, trademarks, and domain names. The Sohu Group s operations and businesses may be adversely impacted if the Sohu Group loses the ability to use and enjoy assets held by these VIEs.

**12. SOHU.COM INC. SHAREHOLDERS EQUITY**

***Takeover Defense***

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

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***Treasury Stock***

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

***Stock Incentive Plans***

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

*Sohu.com Inc. Share-based Awards*

*Sohu s 2010 Stock Incentive Plan*

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

*Summary of Stock Option Activity*

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

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

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

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

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

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

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

Summary of Restricted Stock Unit Activity

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

| Restricted Stock Units | Number of Units (in thousands) | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Unvested at January 1, 2017 | 11 | $ 70.24 |
| Granted | 0 | |
| Vested | (2) | 64.00 |
| Forfeited | (5) | 71.85 |
| Unvested at September 30, 2017 | 4 | 81.56 |

| | | |
|---|---|---|
| Expected to vest after September 30, 2017 | 3 | 81.56 |

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

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

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*Sogou Inc. Share-based Awards*

*Sogou 2010 Share Incentive Plan*

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

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

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

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

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

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

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

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

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

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

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

*Sohu Management Sogou Share Option Arrangement*

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

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

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

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

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

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

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

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

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

*Sogou Share Repurchase Transaction*

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

*Option Modification*

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

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

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

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

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

*Changyou.com Limited Share-based Awards*

*Changyou s 2008 Share Incentive Plan*

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

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

*Share-based Awards granted before Changyou s IPO*

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

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*Share-based Awards granted after Changyou s IPO*

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

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

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

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

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

*Changyou 2014 Share Incentive Plan*

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

*Summary of Share Option Activity*

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

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

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

A summary of share option activity under the Changyou 2014 Share Incentive Plan as of and for the nine months ended September 30, 2017 is presented below:

| **Options** | **Number Of Shares (in thousands)** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Life (Years)** | **Aggregate Intrinsic Value (1) (in thousands)** |
|---|---|---|---|---|
| Outstanding at January 1, 2017 | 852 | $ 0.01 | 7.93 | $ 9,032 |
| Granted | 320 | 0.01 | | |
| Exercised | (650) | 0.01 | | |
| Forfeited or expired | 0 | | | |
| Outstanding at September 30, 2017 | 522 | 0.01 | 7.43 | 10,333 |
| Vested at September 30, 2017 | 522 | 0.01 | | 10,333 |
| Exercisable at September 30, 2017 | 522 | 0.01 | | |

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

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

***Sohu Video Share-based Awards***

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

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

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

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

**13. NONCONTROLLING INTEREST**

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

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

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

| | **As of** | |
|---|---|---|
| | **December 31, 2016** | **September 30, 2017** |
| Sogou | $ 165,584 | $ 223,609 |
| Changyou | 398,631 | 426,137 |
| Other | 0 | 109 |
| Total | $ 564,215 | $ 649,855 |

***Noncontrolling Interest of Sogou***

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

***Noncontrolling Interest of Changyou***

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

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***Noncontrolling Interest in the Consolidated Statements of Comprehensive Income***

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

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

***Noncontrolling Interest of Sogou***

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

***Noncontrolling Interest of Changyou***

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

## 14. NET INCOME /(LOSS) PER SHARE

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

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

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

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

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

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

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

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

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

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

| | **Three Months Ended September 30,** | **Nine Months Ended September 30,** |
|---|---|---|

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

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## 15. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

## 16. SUBSEQUENT EVENTS

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

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

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

*As used in this report, references to us, we, our, our company, our Group, the Sohu Group, the Group, and Sohu.com are to Sohu.com Inc. and, except where the context requires otherwise, our subsidiaries and variable interest entities ( VIEs ) Sohu.com Limited, Sohu.com (Hong Kong) Limited ( Sohu Hong Kong ), All Honest International Limited ( All Honest ), Sohu.com (Game) Limited ( Sohu Game ), Go2Map Inc., Sohu.com (Search) Limited ( Sohu Search ), Sogou Inc. ( Sogou ), Sogou (BVI) Limited ( Sogou BVI ), Sogou Hong Kong Limited ( Sogou HK ), Vast Creation Advertising Media Services Limited ( Vast Creation ), Sogou Technology Hong Kong Limited, Fox Video Investment Holding Limited ( Video Investment ), Fox Video Limited ( Sohu Video ), Fox Video (HK) Limited ( Video HK ), Focus Investment Holding Limited, Sohu Focus Limited, Sohu Focus (HK) Limited, Beijing Sohu New Era Information Technology Co., Ltd. ( Sohu Era ), Beijing Sohu Software Technology Co., Ltd., Beijing Sogou Technology Development Co., Ltd. ( Sogou Technology ), Beijing Sogou Network Technology Co., Ltd ( Sogou Network ), Fox Information Technology (Tianjin) Limited ( Video Tianjin ), Beijing Sohu New Media Information Technology Co., Ltd. ( Sohu Media ), Beijing Sohu New Momentum Information Technology Co., Ltd. ( Sohu New Momentum ), Beijing Century High Tech Investment Co., Ltd. ( High Century ), Beijing Heng Da Yi Tong Information Technology Co., Ltd. ( Heng Da Yi Tong , formerly known as Beijing Sohu Entertainment Culture Media Co., Ltd.), Beijing Sohu Internet Information Service Co., Ltd. ( Sohu Internet ), Beijing GoodFeel Technology Co., Ltd., Beijing Sogou Information Service Co., Ltd. ( Sogou Information ), Beijing 21 East Culture Development Co., Ltd., Beijing Sohu Donglin Advertising Co., Ltd.( Donglin ), Beijing Pilot New Era Advertising Co., Ltd. ( Pilot New Era ), Beijing Focus Yiju Network Information Technology Co., Ltd., SohuPay Science and Technology Co., Ltd., Beijing Yi He Jia Xun Information Technology Co., Ltd., Tianjin Jinhu Culture Development Co., Ltd. ( Tianjin Jinhu ), Guangzhou Qianjun Network Technology Co., Ltd. ( Guangzhou Qianjun ), Beijing Modu Legendary Culture Media Co., Ltd., Shenzhen Shi Ji Guang Su Information Technology Co., Ltd., Chengdu Easypay Technology Co., Ltd., Beijing Shi Ji Si Su Technology Co., Ltd., Tianjin Sogou Network Technology Co., Ltd, Chongqing Qogir Enterprise Management Consulting Co., Ltd., Beijing Focus Interactive Information Service Co., Ltd., Beijing Focus Xin Gan Xian Information Technology Co., Ltd., Beijing Focus Real Estate Agency Co., Ltd. and our independently-listed majority-owned subsidiary Changyou.com Limited ( Changyou ) as well as the following direct and indirect subsidiaries and VIEs of Changyou: Changyou.com HK Limited ( Changyou HK ) formerly known as TL Age Hong Kong Limited), Changyou.com Webgames (HK) Limited ( Changyou HK Webgames ), Changyou.com Gamepower (HK) Limited, ICE Entertainment (HK) Limited ( ICE HK ), Changyou.com Gamestar (HK) Limited, Changyou.com Korea Limited, Changyou.com India Private Limited, Changyou BILISIM HIZMETLERI TICARET LIMITED SIRKETI, Kylie Enterprises Limited, Mobogarden Enterprises Limited, Heroic Vision Holdings Limited, TalkTalk Limited, RaidCall (HK) Limited, 7Road.com Limited ( 7Road ), 7Road.com HK Limited ( 7Road HK ), Changyou.com (TH) Limited, PT. CHANGYOU TECHNOLOGY INDONESIA, Changyou Middle East FZ-LLC, Changyou.com Technology Brazil Desenvolvimento De Programas LTDA, Greative Entertainment Limited (formerly known as Greative Digital Limited), Glory Loop Limited ( Glory Loop ), MoboTap Inc. ( MoboTap , a Cayman Islands company), MoboTap Inc. Limited ( MoboTap HK ), MoboTap Inc. (a Delaware corporation), TMobi Limited (formerly known as Muse Entertainment Limited), Mobo Information Technology Pte. Ltd., Changyou Mobo Glint Limited, Beijing AmazGame Age Internet Technology Co., Ltd. ( AmazGame ), Beijing Changyou Skyline Property Management Co. Ltd, Beijing Changyou Chuangxiang Software Technology Co., Ltd., Beijing Changyou Gamespace Software Technology Co., Ltd. ( Gamespace ), ICE Information Technology (Shanghai) Co., Ltd. ( ICE Information ), Beijing Changyou RaidCall Internet Technology Co., Ltd. ( RaidCall ), Beijing Yang Fan Jing He Information Consulting Co., Ltd. ( Yang Fan Jing He ), Shanghai Jingmao Culture Communication Co., Ltd. ( Shanghai Jingmao ), Shanghai Hejin Data Consulting Co., Ltd., Beijing Changyou Jingmao Film & Culture Communication Co., Ltd. ( Beijing Jingmao ), Beijing Gamease Age Digital Technology Co., Ltd. ( Gamease ), Beijing Guanyou Gamespace Digital Technology Co., Ltd. ( Guanyou Gamespace ), Beijing Zhi Hui You Information Technology Co., Ltd., Shanghai ICE Information Technology Co., Ltd. ( Shanghai ICE ), Shenzhen 7Road Network Technologies Co., Ltd. ( 7Road*

*Technology ), Beijing Changyou Star Digital Technology Co., Ltd ( Changyou Star ), Beijing Changyou Creation Information Technology Co., Ltd. (formerly known as Beijing Changyou e-pay Co. Ltd.), Shenzhen Brilliant Imagination Technologies Co., Ltd. ( Brilliant Imagination ), Beijing Baina Information Technology Co., Ltd., Baina Zhiyuan (Beijing) Technology Co., Ltd. ( Beijing Baina Technology ), Baina Zhiyuan (Chengdu) Technology Co., Ltd., Chengdu Xingyu Technology Co., Ltd., Baina (Wuhan) Information Technology Co., Ltd. ( Wuhan Baina Information ), Wuhan Xingyu Technology Co., Ltd., Beijing Changyou Creative Technology Co., Ltd., BeiJing Changmica Culture Co., Ltd., and HongKong New Xinlang Electron Group Limited, and these references should be interpreted accordingly. Unless otherwise specified, references to China or PRC refer to the People s Republic of China and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words expect, anticipate, intend, believe, or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth under the heading Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the U.S. Securities and Exchange Commission ( SEC ) on February 27, 2017, as updated by Part II Item 1A of our quarterly report on Form 10 Q for the quarter ended June 30, 2017 and by Part II Item 1A of this report. Readers are cautioned not to place undue reliance on these forward-looking statements.*

**OVERVIEW**

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

**Factors and Trends Affecting our Business**

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

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

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

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

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

### Our Business

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

Sohu:

- $68.8 million in brand advertising revenues, of which $37.9 million was from Sohu Media Portal, $18.9 million was from Sohu Video, and $12.0 million was from Focus; and

- $24.6 million in other revenues, mainly attributable to revenues from paid subscription services, sub-licensing of purchased video content to third parties, interactive broadcasting services, and content provided through the platforms of the three main telecommunications operators in China.

Total revenues generated by Sohu were $93.4 million.

Sogou:

- $225.4 million in search and search-related advertising revenues; and

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

Total revenues generated by Sogou were $257.2 million.

Changyou:

- $132.4 million in online game revenues;

- $6.0 million in brand advertising revenues, mainly attributable to Changyou s 17173.com Website; and

- $27.1 million in other revenues attributable to Changyou s cinema advertising business and IVAS business.

Total revenues generated by Changyou were $165.5 million.

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

**Sohu s Business**

*Brand Advertising Business*

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

**Sohu Media Portal**. Sohu Media Portal is a leading online news and information provider in China. Sohu Media Portal provides users comprehensive content through www.sohu.com for PCs, the mobile phone application Sohu News APP and the mobile portal m.sohu.com;

**Sohu Video.** Sohu Video is a leading online video content and service provider in China through tv.sohu.com for PCs and the mobile phone application Sohu Video APP; and

**Focus.** Focus (www.focus.cn) is a leading online real estate information and services provider in China.

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

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*Other Sohu Business*

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

**Sogou s Business**

*Search and Search-related Business*

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

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

*Other Sogou Business*

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

**Changyou s Business**

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

*Online Game Business*

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

*Platform Channel Business*

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

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

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

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

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

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

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

*Cinema Advertising Business*

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

## CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

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

**Basis of Consolidation and Recognition of Noncontrolling Interest**

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

***VIE Consolidation***

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

*Noncontrolling Interest Recognition*

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

*Noncontrolling Interest for Sogou*

*Sogou s Share Structure*

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

(i) Sohu.com Inc.: 130,920,250 Class A Ordinary Shares, of which 3,707,000 shares may be purchased by Sohu management and key employees under an option arrangement;

(ii) Photon Group Limited, an investment vehicle of the Sohu Group s Chairman and Chief Executive Officer Charles Zhang ( Photon ): 32,000,000 Series A Preferred Shares;

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

(iv) Various employees of Sogou and Sohu: 21,716,831 Class A Ordinary Shares.

*Sohu s Shareholding in and Control of Sogou*

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

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

*Principles of Allocation of Sogou s Profit and Loss*

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

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

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

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

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

Net income from Sogou is allocated in the following order:

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

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

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

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

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

*Key Terms of Sogou Preferred Shares*

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

(i) Dividend Rights

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

(ii) Liquidation Rights

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

(iii) Redemption Rights

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

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(iv) Conversion Rights

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

(v) Voting Rights

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

(vi) Other Rights

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

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

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

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

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

*Noncontrolling Interest for Changyou*

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

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

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***Segment Reporting***

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

**Revenue Recognition**

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

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

***Online Advertising Revenues***

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

*Brand Advertising Revenues*

*Business Model*

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

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

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

(ii) CPM model

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

(iii) CPC model

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

(iv) E-commerce model

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

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*Revenue Recognition*

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

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

*Search and Search-related Advertising Revenues*

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

*Pay-for-click Services*

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

*Other Online Advertising Services*

Other online advertising services mainly consist of displaying advertisers promotional links on Sogou s Internet properties. Revenue for time-based advertising is normally recognized on a straight-line basis over the contract period, provided our obligations under the contract have been met and all revenue recognition criteria have been met. Revenue for performance-based advertising services is recognized when our obligations under the contract have been met.

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

***Online Game Revenues***

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

*Self-Operated Games*

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

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*PC Games*

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

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

*Mobile Games*

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

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

*Web Games*

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

*Licensed-Out Games*

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

***Other Revenues***

*Sohu*

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

*Sogou*

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

*Changyou*

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

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

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

**Product Development Expenses**

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

**Advertising Expenses**

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

**Share-based Compensation Expense**

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

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

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

*Sohu (excluding Sohu Video) Share-based Awards*

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

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

*Sogou Share-based Awards*

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

*Changyou Share-based Awards*

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

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

*Compensation Expense Recognition*

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

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

***Sohu Video Share-based Awards***

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

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

## Taxation

### *Income Taxes*

*Recognition*

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

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

*Applicable Income Tax Rate*

*Principal Entities Qualified as HNTEs*

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

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

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

For Sohu s Business

Sohu New Momentum. Sohu New Momentum qualified as an HNTE for 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.

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

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

For Sogou s Business

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

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

Sogou Network. Sogou Network qualified as an HNTE for 2016 to 2018, and will need to re-apply for HNTE qualification in 2019.

For Changyou s Business

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

Gamespace. Gamespace qualified as HNTE for the years 2017 to 2019, and will need to re-apply for HNTE qualification in 2020.

*Principal Entities Qualified as Software Enterprises and KNSEs*

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

For Sohu s Business

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

For Sogou s Business

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

For Changyou s Business

AmazGame. In the second quarter of 2017, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2016, and will follow the same process in 2018 for KNSE status for 2017. In the third quarter of 2017, AmazeGame was qualified as a KNSE after the relevant government authorities assessment and was entitled to a preferential income tax rate of 10% for 2016.

Wuhan Baina Information. In the second quarter of 2017, Wuhan Baina Information completed a self-assessment and filed required supporting documents to entitle it to the first year of an income tax exemption as a Software Enterprise for 2016, and will follow the same process in 2018 to entitle it to the second year of an income tax exemption for 2017.

***PRC Withholding Tax on Dividends***

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

***PRC Value Added Tax***

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

***U.S. Corporate Income Tax***

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

***Uncertain Tax Positions***

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

**Net Income /(Loss) per Share**

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

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

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

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

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

**Fair Value of Financial Instruments**

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

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

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

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

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

**Cash Equivalents**

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

**Short-term Investments**

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

**Accounts Receivable, Net**

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

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### Available-for-Sale Securities

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

### Foreign exchange forward contracts

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

### Equity Investments

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

### Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

#### *Fixed Assets*

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

| **Fixed Assets** | **Estimated Useful Lives (years)** |
| --- | --- |
| Office buildings | 36-47 |
| Leasehold improvements | Lesser of term of the lease or the estimated useful lives of the assets |
| Building improvements | 10 |
| Vehicles | 4-10 |

| | |
|---|---|
| Office furniture | 5 |
| Computer equipment and hardware | 2-5 |

Expenditure for maintenance and repairs is expensed as incurred.

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

***Intangible Assets***

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

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

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

***Impairment of Long-lived Assets***

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

*Video Content*

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

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

***Impairment of Video Content***

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

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

**Goodwill**

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

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

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

**Comprehensive Income**

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

**Functional Currency and Foreign Currency Translation**

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

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

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

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## RESULTS OF OPERATIONS

### Revenues

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

| | Three Months Ended September 30, | | | | | | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2017 | | 2017 vs 2016 | | 2016 | | 2017 | | 2017 vs 201 | |
| | Amount | Percentage of the total revenue | Amount | Percentage of the total revenue | Amount | Incremental ratio | Amount | Percentage of the total revenue | Amount | Percentage of the total revenue | Amount | Incre ra |
| ues | | | | | | | | | | | | |
| e advertising: | | | | | | | | | | | | |
| advertising | $ 110,871 | 27% | 74,832 | 15% | (36,039) | (33)% | $ 349,261 | 28% | 242,315 | 18% | (106,946) | ( |
| n and -related ising | 150,667 | 37% | 225,363 | 43% | 74,696 | 50% | 444,633 | 36% | 554,145 | 41% | 109,512 | |
| al of online ising ues | 261,538 | 64% | 300,195 | 58% | 38,657 | 15% | 793,894 | 64% | 796,460 | 59% | 2,566 | |
| e game | 98,553 | 24% | 132,427 | 26% | 33,874 | 34% | 300,309 | 24% | 340,150 | 25% | 39,841 | |
| s | 50,491 | 12% | 83,439 | 16% | 32,948 | 65% | 144,469 | 12% | 214,722 | 16% | 70,253 | |
| revenues | $ 410,582 | 100% | 516,061 | 100% | 105,479 | 26% | $ 1,238,672 | 100% | 1,351,332 | 100% | 112,660 | |

***Online Advertising Revenues***

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

*Brand Advertising Revenues, Generated by Sohu and Changyou*

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

*Sohu*

Sohu Media Portal

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

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Sohu Video

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

Focus

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

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

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

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

*Changyou*

17173.com Website

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

*Search and Search-related Advertising Revenues, Generated by Sogou*

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

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

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

***Online Game Revenues Generated by Changyou***

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

*PC Games and Mobile Games*

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

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

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

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

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

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

*Web Games*

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

***Other Revenues***

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

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

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

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## Costs and Expenses

### *Cost of Revenues*

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

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

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*Cost of Online Advertising Revenues*

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

*Cost of Brand Advertising Revenues*

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

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

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

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

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

*Cost of Search and Search-related Advertising Revenues*

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

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

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

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

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

*Cost of Online Game Revenues*

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

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

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

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

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

*Cost of Other Revenues*

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

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

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*Operating Expenses*

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

| | Three Months Ended September 30, | | | | | | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | 2017 | | 2017 vs 2016 | | 2016 | | 2017 | | 2017 vs 2016 | |
| | Amount | Percentage of the total expense | Amount | Percentage of the total expense | Amount | Incremental ratio | Amount | Percentage of the total expense | Amount | Percentage of the total expense | Amount | Increment ratio |
| perating xpenses: | | | | | | | | | | | | |
| roduct evelopment | $ 90,007 | 38% | 105,162 | 31% | 15,155 | 17% | $ 261,645 | 39% | 289,406 | 38% | 27,761 | 11% |
| ales and arketing | 110,584 | 46% | 111,935 | 34% | 1,351 | 1% | 318,597 | 47% | 296,866 | 39% | (21,731) | (7)% |
| eneral and dministrative | 38,670 | 16% | 31,038 | 9% | (7,632) | (20)% | 95,927 | 14% | 87,045 | 12% | (8,882) | (9)% |
| oodwill npairment nd npairment of ntangible ssets acquired s part of usiness cquisitions | 0 | 0% | 86,882 | 26% | 86,822 | 100% | 0 | 0% | 86,882 | 11% | 86,882 | 100% |
| otal perating xpenses | $ 239,261 | 100% | 335,017 | 100% | 95,756 | 40% | $ 676,169 | 100% | 760,199 | 100% | 84,030 | 12% |

*Product Development Expenses*

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

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

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

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

*Sales and Marketing Expenses*

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

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

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

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

*General and Administrative Expenses*

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

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

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

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

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

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

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***Share-based Compensation Expense***

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

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

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

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

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

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

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

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

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

***Operating Profit/(Loss)***

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

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***Other Income / (Loss)***

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

***Interest Income***

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

***Interest Expense***

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

***Income Tax Expense***

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

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

***Net Loss***

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

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

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

***Net Loss Attributable to Sohu.com Inc.***

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

**LIQUIDITY AND CAPITAL RESOURCES**

**Resources Analysis**

***Liquidity Sources and Balances***

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

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

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

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

***Contractual Obligations***

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

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

**Cash Generating Ability**

Our cash flows are summarized below (in thousands):

| | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2017 |
|---|---|---|
| Net cash provided by operating activities | $ 214,224 | $ 83,972 |
| Net cash used in investing activities | (9,046) | (185,233) |

| | | |
|---|---|---|
| Net cash provided by /(used in) financing activities | (327,591) | 57,265 |
| Effect of exchange rate change on cash and cash equivalents | (20,427) | 21,919 |
| Reclassification of cash and cash equivalents to held-for-sale assets | (10,280) | 11,684 |
| Net decrease in cash and cash equivalents | (153,120) | (10,393) |
| Cash and cash equivalents at beginning of period | 1,245,205 | 1,050,957 |
| Cash and cash equivalents at end of period | $ 1,092,085 | $ 1,040,564 |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***PRC Restrictions Related to Our VIE Structure***

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

***U.S. Corporate Income Tax***

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

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

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### Dividend Policy

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

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

## IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**
**FOREIGN CURRENCY EXCHANGE RATE RISK**

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

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

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

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

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

**INTEREST RATE RISK**

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

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

**INFLATION RATE RISK**

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

## ITEM 4. CONTROLS AND PROCEDURES

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

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

## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

## ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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***If Sogou s collaboration with Tencent is terminated or curtailed, Sogou s business would likely to be adversely affected.***

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

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

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

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

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

***Risks Related to Sogou Inc.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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***Sogou may not be able to sustain its historical growth.***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**USE OF PROCEEDS**

On July 17, 2000, Sohu.com Inc. completed an underwritten IPO of its common stock pursuant to a Registration Statement on Form S-1 (SEC file No. 333-96137), which became effective on July 10, 2000. There has been no change in the information regarding use of proceeds from the offering that was included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 27, 2017.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

Please see the Exhibit Index attached hereto.

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Sohu.com Inc.

Quarterly Report on Form 10-Q for Quarter Ended September 30, 2017

**EXHIBIT INDEX**

| | |
|---|---|
| 10.1(1) | English translation of Amendment to the Original PAB Credit Agreements, dated September 1, 2017 |
| 10.2(1) | English translation of Credit Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd., Fox Information Technology (Tianjin) Limited, and Beijing Sohu New Momentum Information Technology Co., Ltd. |
| 10.3(1) | English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Momentum Information Technology Co., Ltd. |
| 10.4(1) | English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd. |
| 10.5(1) | English translation of Commitment Letter, dated September 7, 2017, between ICBC and the registrant |
| 10.6(2) | Voting Agreement dated September 16, 2013 among Sogou Inc., Sohu.com (Search) Limited, Photon, Xiaochuan Wang, and other members of Sogou Management, as amended as of August 11, 2017 |
| 10.7(2) | Voting Agreement dated as of August 11, 2017 among Sogou Inc, Sohu.com (Search) Limited, and THL A21 Limited |
| 10.8(2) | Registration Rights Agreement dated as of August 11, 2017 among Sogou Inc., Sohu.com (Search) Limited, Photon and THL A21 Limited |
| 10.9(2) | English Translation of Second Amended and Restated Mobile Browser Cooperation Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. |
| 10.10(2) | English Translation of Cooperation Agreement between Weixin Official Platform and Sogou Search, dated September 15, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Information |
| 10.11(2) | English Translation of Amended and Restated Business Development and Resource Sharing Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited |
| 10.12(2) | Sohu.com Internet Plaza Office Building Lease, dated December 30, 2016, between Sogou Network and Beijing Sohu New Media Information Technology Co., Ltd., as amended and supplemented |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Joanna Lv |
| 32.1 | Section 1350 Certification of Charles Zhang |
| 32.2 | Section 1350 Certification of Joanna Lv |

| | |
|---|---|
| 101 | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2017 and 2016; (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2017 and 2016; (iv) Condensed Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2017 and 2016; and (v) Notes to Condensed Consolidated Financial Statements, tagged using four different levels of detail. |

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

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

(2) Filed herewith.

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## SIGNATURES

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

Dated: November 3, 2017

**SOHU.COM INC.**

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

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