

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

_____, Individually and on Behalf of All
Others Similarly Situated,

Plaintiff,

vs.

SOGOU INC., SOHU, INC., TENCENT
HOLDINGS LIMITED, XIAOCHUAN
WANG, CHARLES (CHAOYANG) ZHANG,
YUXIN REN, JOANNA (YANFENG) LU,
BIN GAO, JOSEPH CHEN, JANICE LEE,
JAMES (XIUFENG) DENG,

Defendants

Case No.

CLASS ACTION

**COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS**

DEMAND FOR JURY TRIAL

Plaintiff, individually and on behalf of all the other persons similarly situated, by plaintiff's undersigned attorneys, alleges the following based upon personal knowledge as to plaintiff and plaintiff's own acts, and upon information and belief as to all other matters based on the investigation conducted by and through plaintiff's attorneys, which included, among other things, a review of Securities and Exchange Commission ("SEC") filings by Sogou Inc. ("Sogou" or the "Company"), as well as conference call transcripts and media and analyst reports about the Company. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

SUMMARY OF THE ACTION

1. This is a federal securities class action on behalf of a class consisting of all persons other than defendants who purchased or otherwise acquired Sogou American Depositary Shares ("ADSs") pursuant and/or traceable to Sogou's false and misleading Registration Statement and Prospectus issued in connection with the Company's initial public offering on or about November 9, 2017 (the "IPO" or

the “Offering”), seeking to recover compensable damages caused by defendants’ Securities Act of 1933 (the “Securities Act”) violations (the “Class”).

2. Sogou was incorporated in the Cayman Islands in December 2005 by Sohu, Inc. (“Sohu”), of which Sogou is a subsidiary, and is based in Beijing, the People’s Republic of China.

3. Sogou is an Internet search company. The Company’s Sogou Search is the second largest search engine in China by mobile queries. In addition, Sogou is the fourth largest Internet company in China based on MAU as of September 2017.

4. Prior to February 2006, Sogou’s search and search-related businesses were operated by various entities owned or controlled by Sohu. In February 2006, Sohu undertook a reorganization of its search and search-related businesses, whereby most of the business was transferred to Sogou. As part of the reorganization, Sohu established Sogou (BVI) Limited, or Sogou BVI, Beijing Sogou Technology Development Co., Ltd., or Sogou Technology, and Sogou Hong Kong Limited, or Sogou HK.

5. Powered by artificial intelligence (“AI”), Sogou Search provides certain services that differentiate it from other search engines. For example, its cross-language search service eliminates the Chinese-English language barrier by enabling users to locate English content on the Internet by querying searches in Chinese and then reading content for which Sogou provides a Chinese translation.

6. On August 14, 2017, Sogou filed a draft Registration Statement on Form DRS with the SEC. On October 13, 2017, Sogou filed a Registration Statement on Form F-1 with the SEC. Following several amendments made in response to comments received by the SEC, the SEC declared the Registration Statement effective on November 8, 2017. The Registration Statement was utilized in the Offering.

7. Each of the Individual Defendants signed the Registration Statement.

8. On November 9, 2017, Sogou filed its Prospectus with the SEC on Form 424B4.

9. The Registration Statement and Prospectus are referred to herein as the “Offering Documents.”

10. On November 9, 2017 Sogou announced the pricing of its initial public offering of 45,000,000 ADSs at a price of US\$13 per ADS. Each ADS represents one Class A Ordinary Share, par value of \$0.001 per share. The Company announced that its ADSs had been approved for listing on the NYSE under the symbol “SOGO.”

11. On November 30, 2017, Sogou announced that the underwriters of the Company’s IPO had exercised their over-allotment (or “greenshoe”) option to purchase an additional 5,643,856 ADSs, each representing one Class A Ordinary Share of the Company. Pursuant to terms of the over-allotment option, the underwriters purchased the additional ADSs from the Company for the IPO price of US\$13.00 per ADS, less an underwriting discount and commission of US\$0.65 per ADS, or a net price of US\$12.35 per ADS.

12. Total proceeds to the Company from ADSs sold in the IPO, including the 45,000,000 ADSs sold initially and the 5,643,856 ADSs sold pursuant to the over-allotment option, were approximately US\$625,450,000, after deducting underwriting discounts and commissions but before deducting offering expenses payable by the Company.

13. Defendants made materially false and misleading statements regarding the Company’s business, operational and compliance policies. Specifically, defendants made false and/or misleading statements and/or failed to disclose that: (i) Sogou was experiencing a significant slowing in growth; (ii) Sogou’s advertising policies and audit procedures were inadequate to ensure compliance with relevant Chinese regulations, and required significant changes and improvement, which would increase costs and decrease revenues and profits; (iii) Sogou’s cost of revenues were increasingly exponentially, driven primarily by significant increases in Traffic Acquisition Cost, a primary driver of Sogou’s cost of revenues, as Sogou was experiencing significant price inflation as a result of increased competition; (iv) Sogou intended to adjust its smart hardware strategy to better leverage the Company’s AI capabilities to improve product competitiveness; and that as a result of the change in strategy, Sogou had already decided to phase out hardware products that were not AI-enabled, such as some legacy

models of Teemo Smart Watch, and transition to products that integrate the Company's AI technologies, which Sogou expected to result in a reduction in hardware revenues in the second half of 2018; (v) the full extent of risks and conflicts of interest posed to the Company by its reliance a steady stream of traffic from one of the Company's principal shareholders—Tencent's WeChat; and (vi) as a result of the foregoing, Sogou's public statements were materially false and misleading at all relevant times.

14. On June 7, 2018, stories began running in Chinese news sources (not U.S. based publications) that Sogou had been ordered by Chinese authorities to take down illegal content. *See* Li Yan, "Douyin, Sogou Told to Eliminate Illegal Ads that Insult Heroic Deeds and Spirits," ECNS.CH. The article noted that "Douyin, a Chinese popular short Video app under Toutiao, and Chinese search engine Sogou were ordered on Wednesday to immediately take down illegal advertisements and carry out serious rectification. The Beijing Office of the Central Cyberspace Affairs Commission and the Beijing Administration for Industry and Commerce talked with the two companies on Wednesday. In the case of Douyin, the discussions involved publishing illegal advertisements on Sogou that discriminated against and insulted "heroic deeds and spirits." The article noted that the Chinese authorities had alleged that "Sogou hasn't fulfilled its responsibility to examine the advertisements posted on its website."

15. On July 1, 2018, news reports disclosed that different governmental entities under the supervision of the PRC's State Administration of Market Regulation had called for punishment against Sogou for running content that insulted national heroes and martyrs. The July 1, 2018 article disclosed that "the Cyberspace Administration of China, the Cyberspace Administration of Beijing and the city's Administration of Industry and Commerce had held face-to-face talks on Saturday with five companies, demanding them to immediately launch a rectification campaign and clean any content that insults heroes and martyrs, according to a release from the Cyberspace Administration of Beijing on Sunday." *See* Wang Keju, "Douyin Must Rectify Illegal Ads Insulting Chinese Martyrs," ChinaDaily.com.

16. The July 1, 2018 ChinaDaily.com article also noted “[c]yberspace regulators have required Douyin, a popular Chinese short video app under ByteDance, and Chinese search engine Sogou to carry out rectifications for their illegal advertisements that insulted martyrs The move follows Douyin’s advertisement on the Sogou search engine, which insulted Qiu Shaoyun, a war hero in the Korean War (1950-53) who let himself burn alive while he laid perfectly still so his platoon wouldn’t be exposed.”

17. The article also noted that Sogou had been “ordered to have a thorough self-examination on related content; conduct internal training on policies and regulations, socialist core values and revolutionary history; and improve their internal content review mechanism to prevent such violations. Names and images of heroes and martyrs such as Qiu must not be used in commercial advertisements, according to the release.”

18. Another article also published on July 1, 2018 noted that “[o]n Sunday afternoon, the watchdog said it had instructed the firms, which include the New York-listed search engine Sogou, to remove all commercials that mention Qiu and that all of them had ‘voluntarily suspended [their] commercial services.’” See “Chinese Video App Douyin Counts the Cost of Insulting Korean War Hero as Advertising Halted,” The South China Morning Post, July 1, 2018. The article noted that “[t]he online controversy started on June 5 [2018] when an advertisement for Douyin appeared on Sogou that invited people to view ‘jokes about Qiu Shaoyun getting burned’. The following day, the cyberspace administration issued a statement saying it had spoken to the two companies and ordered them to delete all related content.”

19. On July 30, 2018, Sogou issued a press release announcing its Q2 2018 financial results, but also disclosing two adverse events. It also announced revised downward guidance for its Q3 2018 financial results based on these adverse events. The press release stated in part:

Chinese regulatory authorities, including the Beijing Office of the Cyberspace Administration of China and the Beijing Administration for Industry and Commerce, initiated an investigation of Sogou after certain advertisements involving content that the authorities

believed insulted a national hero were displayed on its platform. The advertisements were developed and reviewed by Douyin, a Chinese short-form video platform, and displayed on Sogou Search in June 2018. Following the investigation, the regulatory authorities instructed Sogou to amend its advertising practices. Sogou fully cooperated with the authorities in their investigation and the Company has taken steps to revise its advertising policies and audit procedures to ensure compliance with relevant regulations. ***In connection with implementing such remedial measures, Sogou suspended part of its advertising business for ten days commencing July 1, 2018. This is expected to result in a one-time reduction in revenues in the third quarter of 2018.***

Sogou recently adjusted its smart hardware strategy to better leverage the Company's AI capabilities to improve product competitiveness. The adjustment followed the recent launch of two translation devices that were well received in the market due to Sogou's industry-leading translation technologies. As a result of the change in strategy, ***Sogou will phase out hardware products that are not AI-enabled***, such as some legacy models of Teemo Smart Watch, and transition to products that integrate the Company's leading AI technologies. ***Sogou expects that this will result in a reduction in hardware revenues in the second half of 2018.***

Business Outlook

For the third quarter of 2018, Sogou expects total revenues to range from \$275 million to \$285 million, representing a 7% to 11% increase year-over-year. The guidance for the third quarter takes into account the one-time impact of the regulatory investigation, lower hardware Sales following the adjustment of the smart hardware strategy, and the depreciation of the RMB.

On this news, Sogou ADS shares, which had closed at \$10.33 on Friday, July 27, 2018, declined to \$9.55 on July 30, 2018 and to \$8.36 by August 15, 2018.

20. An article at the time noted the stock decline and attributed it to the poor earnings and decreased guidance for Q3 2018, which was tied to the 10-day suspension and the transition of the Company to new smart hardware. See "Sogou trades lower on Q2 results; Q3 revenue guidance well below expectations (SOGO)," Briefing.com, July 30, 2018. The article noted that:

The Q2 results were decent but not great; of greater issue for the stock's performance today is the issued Q3 revenue guidance of \$275-285 mln, which is well below market expectations.

Why the poor guidance? It seems that Chinese regulatory authorities initiated an investigation of Sogou after certain ads involving content that the authorities believed insulted a martyred national hero were displayed on its platform. The ads were developed and reviewed by Douyin, a popular Chinese short-form video sharing platform, and displayed on Sogou Search in June 2018. Sogou, as instructed by authorities, has taken steps to revise its advertising policies and audit procedures to ensure compliance. As a result of these revisions, ***Sogou suspended part of its ad business for ten days beginning on July 1. This is expected to result in a one-time reduction in revenue in Q3.***

Also, in the interest of product competitiveness, Sogou has decided to phase out hardware products that are not AI-enabled, such as some legacy models of Teemo Smart Watch, and to transition to products that integrate the company's AI technologies. Sogou expects to see this strategic change result in a reduction in hardware revenue in 2H18. So the combination of these two events seem[s] to have impacted near-term revenue outlook.

21. Moreover, Sogou hosted a conference call with analysts on July 19, 2018 to discuss its Q2 2018 financial results. During that call, in response to a question from an analyst, Sogou admitted that the issues surrounding the suspension of its ad business was adversely affecting its business:

Q: First question is regarding the recent PR incident on infringing or counterfeit products that management just mentioned. So can management share with us some thoughts on whether you view these impact [sic] as temporary one or rather long-lasting risk, as though we are taking a lot of efforts here, is this hard to solve all this kind of problem at one-time? That's my first question.

A: [Colin Huang of Sogou]: Okay. So the first question, the combat against the counterfeit goods. . . **The recent development and media attention had a little—honestly, had a little effect on the business itself**, but it does help us reflect and revisit many of our policies. We deeply understand that regardless the existing problems the industry has. It doesn't give us any excuse for not facing the problem directly and fighting against the problem wholeheartedly.

22. On the call, analysts also did not believe Sogou's explanation that the effects of the problems would be confined to Q3 2018. In answering a question about the effect on Sogou's business from the 10-day suspension of ads, Sogou admitted that Q2 2018 revenues had been adversely impacted by Sogou's transition to smart hardware that had better AI capabilities:

Q: [Alicia Yap]: I have a follow-up questions regarding the 10-day suspension's impact with 3Q guidance. So can you elaborate a little bit on the impact? ***It seems like the 3Q guidance are suggesting more serious impact than the 10-day suspension. So wanted to know how much of that coming from exactly the 10 days impact and how much of that is actually coming from the ongoing cleanup on the monitoring of those ad services.*** So any detailed elaborations would be helpful.

A: [Joe Zhou]: Okay, I will take this question. ***So first, let me give you more details on Q2 revenue.*** That was such a very good basis for you to understanding Q3 revenue guidance. So for Q2, excluding 10 percentage points exchange rate impact total revenues in RMB increased by 33% year-over-year. Among that search-related revenues grew 35% year-over-year and the hardware revenues grew 19% year-over-year. For search-related revenue, the increase of 35% year-over-year were driven by, first, midsingle-digit growth in search traffic and 23% improvement on monetization. ***So for other revenues, it grew by 19%. The modest growth was primarily due to slower-than-expected Teemo sales as we already started to transition to hardware products that are better connected with AI capabilities. So that's for Q2.***

For Q3, excluding 2 percentage points exchange rate impact, if we use the midrange of our guidance that implies total revenues in RMB terms to grow 11% year-over-year. So among that, search-related revenues were increased by mid-teens and ***other revenues were decreased 25% to 30%***. So for search-related revenues to grow by mid-teens year-over-year, that's driven by, first single-digit growth in traffic and about 10% improvement on monetization. So, comparing to 23% year-over-year growth on the monetization improvement in Q2, ***the speed slowdown in Q3 [is] due to the 10-day suspension as a result of the Yin [ph] incident***.

So other revenues are expected to decrease by 25% to 30% costs toward the end of Q2. We started to accelerate the adjustment of our smart hardware strategy by transitioning to products that are better connected with AI capabilities. Therefore, we are phasing out hardware products that are now AI-enabled such as certain legacy models of the Teemo Smart Watch.

23. In response to these disclosures, Sogou stock continued to decline significantly. On July 19, 2018, Sogou's stock closed at \$11.29 per share. By July 31, 2018, the stock had declined to \$9.21 per share. The Company's stock declined over 19% in July 2018.

24. On October 25, 2018, Sogou announced Q3 2018 results, in which revenues missed guidance by \$5.24 million. The Company also announced disappointing guidance for 2019.

25. On the conference call with analysts to discuss Q3 2018 results and guidance going forward, Sogou attributed its reduced guidance for 2019 to continuing adverse effects from the Company's upgrade of its hardware:

[Joe Zhou]: "And finally, turning to guidance. For the first quarter of 2018, we expect the total revenues to be in the range of \$292 million to \$307 million, representing a 5% to 11% increase year-over-year or 11% to 17% increase year-over-year in RMB terms. ***The guidance takes into account a year-over-year decrease in other revenues due to the upgrade of our smart hardware strategy***, some macro uncertainties and regulatory headwind for certain sectors."

26. On the same conference call with analysts, in response to another question from an analyst about the transition to smart hardware and its effect on 2019 results, Jessie Zheng of Sogou stated:

[Jessie Zheng]: "***On smart hardware***, I think our strategy has been that we need to leverage those technologies in voice, computer Vision, machine translation and Q&A, along the roadmap of natural interaction and knowledge computing, and integrate such AI technology closely with smart hardware to help strengthen Sogou's competitiveness and differentiation. ***In the first half and more recently, we launched a series of translation devices that help us showcase our AI capabilities*** and build a stronger brand in the market. And in the future, we look to launch some

products that are of more strategic implications, that are designed to serve as a better gateway for user interaction.

27. On the conference call, Sogou also announced that sales to one of its largest customers, Tencent, had also decreased, and that there was still no timetable for any monetization from the WeChat search business.

28. As the market absorbed this continuing adverse information, Sogou's stock declined to just \$5.50 by October 30, 2018—a more than 57% decrease in less than a year from the date of the IPO.

29. As a result of Defendants' false and/or misleading statements, Sogou securities traded at inflated prices. However, after disclosure of Defendants' false and/or misleading statements, Sogou's stock suffered a precipitous decline in market value, thereby causing significant losses and damages to Plaintiff and other Class members.

JURISDICTION AND VENUE

30. The claims asserted herein arise under and pursuant to Sections 11 and 15 of the Securities Act (15 U.S.C. §§ 77k and 77o).

31. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331, Section 22 of the Securities Act (15 U.S.C. § 77v).

32. Venue is proper in this Judicial District pursuant to 15 U.S.C. § 77v. Sogou securities are traded on the New York Stock Exchange LLC ("NYSE"), located within this Judicial District.

33. In connection with the acts, conduct and other wrongs alleged herein, Defendants either directly or indirectly used the means and instrumentalities of interstate commerce, including but not limited to the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

34. Plaintiff purchased or otherwise acquired Sogou ADSs as described in the attached certification and was damaged by the revelation of the alleged corrective disclosure.

35. Defendant Sogou is incorporated in the Cayman Islands, and its stock trades on the NYSE under the ticker symbol “SOGO.” The Company’s corporate headquarters are located at Level 15, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People’s Republic of China.

36. Defendant Sohu is a Chinese Internet company and is a controlling shareholder of Sogou. Its offices are located at Level 15, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun, Haidian District, Beijing, China, 100084. Sohu’s stock trades on the NASDAQ Stock Exchange under the ticker “SOHU.”

37. Sogou is not only controlled by Sohu—it was founded by Sohu. The Prospectus states that “Because more than 50% of the voting power in the election of directors of our company will be held by Sohu immediately following this offering, we will qualify as a controlled company under the [NYSE] Listed Company Manual.”

38. Defendant Tencent Holdings Limited (“Tencent”) is a Chinese multinational investment holding conglomerate founded in 1998, whose subsidiaries specialize in various Internet-related services and products, entertainment, artificial intelligence and technology both in China and globally. Tencent is one of the largest if not the largest gaming and social media companies. Tencent is a controlling shareholder of Sogou. Tencent is headquartered at Tencent Building, Kejizhongyi Avenue Hi-tech Park Nanshan District, Shenzhen, China 518057.

39. Defendant Xiaochuan Wang (“Wang”) is the CEO is, and throughout the relevant period, was a Director and Chief Executive Officer (“CEO”) of Sogou. Upon information and belief, Wang is a citizen and resident of China.

40. Defendant James (Xiufeng) Deng (“Deng”) is the Company’s Chief Financial Officer (“CFO”). Deng has been responsible for overseeing the Company’s financial and accounting functions and prepared parts of the Offering Documents. Upon information and belief, Deng is a citizen and resident of China.

41. Defendant Charles (Chaoyang) Zhang (“Zhang”) is the Chairman of the Board (“Chairman”) of Sogou. Zhang is the founder of Sohu and has been its Chairman and CEO since August 1996. Upon information and belief, Zhang is a citizen and resident of China.

42. Defendant Yuxin Ren (“Ren”) is a Director of Sogou. Upon information and belief, Ren is a citizen and resident of China.

43. Defendant Joanna (Yanfeng) Lu (“Lu”) is a Director of Sogou. Upon information and belief, Lu is a citizen and resident of China.

44. Defendant Bin Gao (“Gao”) is identified in the Prospectus as a nominee for Director of Sogou. Upon information and belief, Gao is a citizen and resident of China.

45. Defendant Joseph Chen (“Chen”) is identified in the Prospectus as a nominee for Director of Sogou. Upon information and belief, Chen is a citizen and resident of China.

46. Defendant Janice Lee (“Lee”) is identified in the Prospectus as a nominee for Director of Sogou. Upon information and belief, Lee is a citizen and resident of China.

47. The defendants named in ¶¶ ____ are sometimes referred to herein as the “Individual Defendants.”

48. The Prospectus states that “[u]pon the effectiveness of the registration statement on Form F-1 of which this prospectus is a part, our Board of Directors will consist of Dr. Charles Zhang, Xiaochuan Wang, Yuxin Ren, Joanna Lu, Bin Gao, Joseph Chen, and Janice Lee.”

49. The Individual Defendants possessed the power and authority to control the contents of the Company’s SEC filings, press releases, and other market communications. The Individual Defendants were provided with copies of the Company’s SEC filings and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or to cause them to be corrected. Because of their positions with the Company, and their access to material information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the

public, and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements and omissions pleaded herein.

SUBSTANTIVE ALLEGATIONS

Background

50. Sogou was incorporated in the Cayman Islands in December 2005 by Sohu, of which Sogou is a subsidiary, and is based in Beijing, the People's Republic of China.

51. Sogou is an Internet search company. The Company's Sogou Search is the second largest search engine in China by mobile queries. In addition, Sogou is the fourth largest Internet company in China based on MAU as of September 2017.

52. Prior to February 2006, Sogou's search and search-related businesses were operated by various entities owned or controlled by Sohu. In February 2006, Sohu undertook a reorganization of its search and search-related businesses, whereby most of the business was transferred to Sogou. As part of the reorganization, Sohu established Sogou (BVI) Limited, or Sogou BVI, Beijing Sogou Technology Development Co., Ltd., or Sogou Technology, and Sogou Hong Kong Limited, or Sogou HK.

53. Powered by artificial intelligence ("AI"), Sogou Search provides certain services that differentiate it from other search engines. For example, its cross-language search service eliminates the Chinese-English language barrier by enabling users to locate English content on the Internet by querying searches in Chinese and then reading content for which Sogou provides a Chinese translation.

54. On August 14, 2017, Sogou filed a draft Registration Statement on Form DRS with the SEC. On October 13, 2017, Sogou filed a Registration Statement on Form F-1 with the SEC. Following several amendments made in response to comments received by the SEC, the SEC declared the Registration Statement effective on November 8, 2017. The Registration Statement was utilized in the Offering.

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59. Total proceeds to the Company from ADSs sold in the IPO, including the 45,000,000 ADSs sold initially and the 5,643,856 ADSs sold pursuant to the over-allotment option, were approximately US\$625,450,000, after deducting underwriting discounts and commissions but before deducting offering expenses payable by the Company.

The Alleged False and Misleading Statements

60.

61. The statements referenced in ¶¶ ____ were materially false and misleading because defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company’s business, operational and compliance policies. Specifically, defendants made false and/or misleading statements and/or failed to disclose that: (i) Sogou was experiencing a significant slowing in growth; (ii) Sogou’s advertising policies and audit procedures were inadequate to ensure compliance with relevant Chinese regulations, and required significant changes and improvement, which would increase costs and decrease revenues and profits; (iii) Sogou’s cost of revenues were increasingly exponentially, driven primarily by significant increases in Traffic Acquisition Cost, a primary driver of Sogou’s cost of revenues, as Sogou was experiencing significant

price inflation as a result of increased competition; (iv) Sogou intended to adjust its smart hardware strategy to better leverage the Company's AI capabilities to improve product competitiveness; and that as a result of the change in strategy, Sogou had already decided to phase out hardware products that were not AI-enabled, such as some legacy models of Teemo Smart Watch, and transition to products that integrate the Company's AI technologies, which Sogou expected to result in a reduction in hardware revenues in the second half of 2018; (v) the full extent of risks and conflicts of interest posed to the Company by its reliance a steady stream of traffic from one of the Company's principal shareholders—Tencent's WeChat; and (vi) as a result of the foregoing, Sogou's public statements were materially false and misleading at all relevant times.

The Truth Emerges

62. On June 7, 2018, stories began running in Chinese news sources (not U.S. based publications) that Sogou had been ordered by Chinese authorities to take down illegal content. *See* Li Yan, "Douyin, Sogou Told to Eliminate Illegal Ads that Insult Heroic Deeds and Spirits," ECNS.CH. The article noted that "Douyin, a Chinese popular short Video app under Toutiao, and Chinese search engine Sogou were ordered on Wednesday to immediately take down illegal advertisements and carry out serious rectification. The Beijing Office of the Central Cyberspace Affairs Commission and the Beijing Administration for Industry and Commerce talked with the two companies on Wednesday. In the case of Douyin, the discussions involved publishing illegal advertisements on Sogou that discriminated against and insulted "heroic deeds and spirits." The article noted that the Chinese authorities had alleged that "Sogou hasn't fulfilled its responsibility to examine the advertisements posted on its website."

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Business Outlook

For the third quarter of 2018, Sogou expects total revenues to range from \$275 million to \$285 million, representing a 7% to 11% increase year-over-year. The guidance for the third quarter takes into account the one-time impact of the regulatory investigation, lower hardware Sales following the adjustment of the smart hardware strategy, and the depreciation of the RMB.

On this news, Sogou ADS shares, which had closed at \$10.33 on Friday, July 27, 2018, declined to \$9.55 on July 30, 2018 and to \$8.36 by August 15, 2018.

68. An article at the time noted the stock decline and attributed it to the poor earnings and decreased guidance for Q3 2018, which was tied to the 10-day suspension and the transition of the Company to new smart hardware. See "Sogou trades lower on Q2 results; Q3 revenue guidance well below expectations (SOGO)," Briefing.com, July 30, 2018. The article noted that:

The Q2 results were decent but not great; of greater issue for the stock's performance today is the issued Q3 revenue guidance of \$275-285 mln, which is well below market expectations.

Why the poor guidance? It seems that Chinese regulatory authorities initiated an investigation of Sogou after certain ads involving content that the authorities believed insulted a martyred national hero were displayed on its platform. The ads were developed and reviewed by Douyin, a popular Chinese short-form video sharing platform, and displayed on Sogou Search in June 2018. Sogou, as instructed by authorities, has taken steps to revise its advertising policies and audit procedures to ensure compliance. As a result of these revisions, ***Sogou suspended part of its ad business for ten days beginning on July 1. This is expected to result in a one-time reduction in revenue in Q3.***

Also, in the interest of product competitiveness, Sogou has decided to phase out hardware products that are not AI-enabled, such as some legacy models of Teemo Smart Watch, and to transition to products that integrate the company's AI technologies. ***Sogou expects to see this strategic change result in a reduction in hardware revenue in 2H18. So the combination of these two events seem[s] to have impacted near-term revenue outlook.***

69. Moreover, Sogou hosted a conference call with analysts on July 19, 2018 to discuss its Q2 2018 financial results. During that call, in response to a question from an analyst, Sogou admitted that the issues surrounding the suspension of its ad business was adversely affecting its business:

Q: First question is regarding the recent PR incident on infringing or counterfeit products that management just mentioned. So can management share with us some thoughts on whether you view these impact [sic] as temporary one or rather long-lasting risk, as though we are taking a lot of efforts here, is this hard to solve all this kind of problem at one-time? That's my first question.

A: [Colin Huang of Sogou]: Okay. So the first question, the combat against the counterfeit goods. . . ***The recent development and media attention had a little—honestly, had a little effect on the business itself***, but it does help us reflect and revisit many of our policies. We deeply understand that regardless the existing problems the industry has. It doesn't give us any excuse for not facing the problem directly and fighting against the problem wholeheartedly.

70. On the call, analysts also did not believe Sogou's explanation that the effects of the problems would be confined to Q3 2018. In answering a question about the effect on Sogou's business from the 10-day suspension of ads, Sogou admitted that Q2 2018 revenues had been adversely impacted by Sogou's transition to smart hardware that had better AI capabilities:

Q: [Alicia Yap]: I have a follow-up questions regarding the 10-day suspension's impact with 3Q guidance. So can you elaborate a little bit on the impact? ***It seems like the 3Q guidance are suggesting more serious impact than the 10-day suspension. So wanted to know how much of that coming from exactly the 10 days impact and how much of that is actually coming from the ongoing cleanup on the monitoring of those ad services.*** So any detailed elaborations would be helpful.

A: [Joe Zhou]: Okay, I will take this question. ***So first, let me give you more details on Q2 revenue.*** That was such a very good basis for you to understanding Q3 revenue guidance. So for Q2, excluding 10 percentage points exchange rate impact total revenues in RMB increased by 33% year-over-year. Among that search-related revenues grew 35% year-over-year and the hardware revenues grew 19% year-over-year. For search-related revenue, the increase of 35% year-over-year were driven by, first, midsingle-digit growth in search traffic and 23% improvement on monetization. ***So for other revenues, it grew by 19%. The modest growth was primarily due to slower-than-expected Teemo sales as we already started to transition to hardware products that are better connected with AI capabilities. So that's for Q2.***

For Q3, excluding 2 percentage points exchange rate impact, if we use the midrange of our guidance that implies total revenues in RMB terms to grow 11% year-over-year. So among that, search-related revenues were increased by mid-teens and ***other revenues were decreased 25% to 30%.*** So for search-related revenues to grow by mid-teens year-over-year, that's driven by, first single-digit growth in traffic and about 10% improvement on monetization. So, comparing to 23% year-over-year growth on the monetization improvement in Q2, ***the speed slowdown in Q3 [is] due to the 10-day suspension as a result of the Yin [ph] incident.***

So other revenues are expected to decrease by 25% to 30% costs toward the end of Q2. We started to accelerate the adjustment of our smart hardware strategy by transitioning to products that are better connected with AI capabilities. Therefore, we are phasing out hardware products that are now AI-enabled such as certain legacy models of the Teemo Smart Watch.

71. In response to these disclosures, Sogou stock continued to decline significantly. On July 19, 2018, Sogou's stock closed at \$11.29 per share. By July 31, 2018, the stock had declined to \$9.21 per share. The Company's stock declined over 19% in July 2018.

72. On October 25, 2018, Sogou announced Q3 2018 results, in which revenues missed guidance by \$5.24 million. The Company also announced disappointing guidance for 2019.

73. On the conference call with analysts to discuss Q3 2018 results and guidance going forward, Sogou attributed its reduced guidance for 2019 to continuing adverse effects from the Company's upgrade of its hardware:

[Joe Zhou]: "And finally, turning to guidance. For the first quarter of 2018, we expect the total revenues to be in the range of \$292 million to \$307 million, representing a 5% to 11% increase year-over-year or 11% to 17% increase year-over-year in RMB terms. ***The guidance takes into account a year-over-year decrease in other revenues due to the upgrade of our smart hardware strategy***, some macro uncertainties and regulatory headwind for certain sectors."

74. On the same conference call with analysts, in response to another question from an analyst about the transition to smart hardware and its effect on 2019 results, Jessie Zheng of Sogou stated:

[Jessie Zheng]: “***On smart hardware***, I think our strategy has been that we need to leverage those technologies in voice, computer Vision, machine translation and Q&A, along the roadmap of natural interaction and knowledge computing, and integrate such AI technology closely with smart hardware to help strengthen Sogou’s competitiveness and differentiation. ***In the first half and more recently, we launched a series of translation devices that help us showcase our AI capabilities*** and build a stronger brand in the market. And in the future, we look to launch some products that are of more strategic implications, that are designed to serve as a better gateway for user interaction.

75. On the conference call, Sogou also announced that sales to one of its largest customers, Tencent, had also decreased, and that there was still no timetable for any monetization from the WeChat search business.

76. As the market absorbed this continuing adverse information, Sogou’s stock declined to just \$5.50 by October 30, 2018—a more than 57% decrease in less than a year from the date of the IPO.

77. As a result of Defendants’ false and/or misleading statements, Sogou securities traded at inflated prices. However, after disclosure of Defendants’ false and/or misleading statements, Sogou’s stock suffered a precipitous decline in market value, thereby causing significant losses and damages to Plaintiff and other Class members.

CLASS ACTION ALLEGATIONS

78. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of the Class (as defined *supra* at ¶ [REDACTED]). Excluded from the Class are defendants and their family members, directors and officers of Sogou and their families and affiliates, directors and officers of Sohu and their families and affiliates, and directors and officers of Tencent and their families and affiliates.

79. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Sogou has millions shares of stock outstanding, owned by hundreds or thousands of persons.

80. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class that predominate over questions that may affect individual Class members include:

- (a) Whether the Securities Act was violated by defendants;
- (b) Whether defendants omitted and/or misrepresented material facts;
- (c) Whether defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) Whether defendants knew or recklessly disregarded that their statements were false and misleading;
- (e) Whether the price of Sogou ADSs were artificially inflated; and
- (f) The extent of damage sustained by Class members and the appropriate measure of damages.

81. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

82. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

83. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

NO SAFE HARBOR

84. Sogou's verbal "Safe Harbor" warnings accompanying its oral forward-looking statements ("FLS") were ineffective to shield those statements from liability.

85. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Sogou who knew that the FLS was false. None of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

**APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET**

86. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

- (a) Defendants made public misrepresentations or failed to disclose material facts;
- (b) The omissions and misrepresentations were material;
- (c) The Company's stock traded in an efficient market;
- (d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's stock; and
- (e) Plaintiff and other members of the Class purchased Sogou ADSs between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

87. At all relevant times, the market for Sogou's ADSs was efficient for the following reasons, among others:

- (a) As a regulated issuer, Sogou filed periodic public reports with the SEC; and
- (b) Sogou regularly communicated with public investors via established market communication mechanisms, including through regular dissemination of press releases on the major

news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services

88. As a result of the foregoing, the market for Sogou's securities promptly digested current information regarding Sogou from all publicly available sources and reflected such information in Sogou's ADS price. Under these circumstances, all purchasers of Sogou's securities at relevant times suffered similar injury through their purchases of Sogou's securities at artificially inflated prices, and a presumption of reliance applies.

COUNT I
Violation of Section 11 of
The Securities Act Against All Defendants

89. Plaintiff repeats and incorporates each and every allegation contained above as if fully set forth herein, except any allegation of fraud, recklessness or intentional misconduct.

90. This Count is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. §77k, on behalf of the Class, against the Individual Defendants.

91. The Registration Statement for the IPO was inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and omitted to state material facts required to be stated therein.

92. Sogou is the registrant for the IPO. Individual Defendants named herein were responsible for the contents and dissemination of the Registration Statement.

93. As issuer of the shares, Sogou is strictly liable to Plaintiff and the Class for the misstatements and omissions.

94. None of the Individual Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading.

95. By reasons of the conduct herein alleged, each Individual Defendant violated, and/or controlled a person who violated Section 11 of the Securities Act.

96. Plaintiff acquired Sogou securities pursuant and/or traceable to the Registration Statement for the IPO.

97. Plaintiff and the Class have sustained damages. The value of Sogou securities has declined substantially subsequent to and due to the Individual Defendants' violations.

COUNT IV
Violation of Section 15 of
The Securities Act Against the Individual Defendants

98. Plaintiff repeats and incorporates each and every allegation contained above as if fully set forth herein, except any allegation of fraud, recklessness or intentional misconduct.

99. This count is asserted against the Individual Defendants and is based upon Section 15 of the Securities Act.

100. Individual Defendants, by virtue of their offices, directorship, and specific acts were, at the time of the wrongs alleged herein and as set forth herein, controlling persons of Sogou within the meaning of Section 15 of the Securities Act. Individual Defendants had the power and influence and exercised the same to cause Sogou to engage in the acts described herein.

101. Individual Defendants' positions made them privy to and provided them with actual knowledge of the material facts concealed from Plaintiff and the Class.

102. By virtue of the conduct alleged herein, the Individual Defendants are liable for the aforesaid wrongful conduct and are liable to Plaintiff and the Class for damages suffered.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Determining that this action is a proper class action, designating Plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Such other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

DATED: December____, 2018

Respectfully submitted,

/s/draft

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