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, 2003

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)

Suite 1519, Tower 2
Bright China Chang An Building
7 Jianguomen Nei Avenue
Beijing 100005
People's Republic of China
86-10-6510-2160

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

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 is an accelerated filer (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 October 31, 2003
Common stock, $.001 par value	35,994,859

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SOHU.COM INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	September 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,255	$ 18,929
Accounts receivable, net	11,814	1,992
Accounts receivable from related parties	—	1,962
Prepaid and other current assets	2,945	2,009
Assets held for disposal	2,331	—
Current portion of long-term investments in marketable debt securities	14,898	2,482
Total current assets	149,243	27,374
Long-term investments in marketable debt securities	29,402	22,800
Fixed assets, net	5,574	6,012
Long-term loans to related parties	—	4,827
Other assets, net	3,560	959
	$ 187,779	$ 61,972
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 855	977
Payable to related parties	—	1,455
Accrued liabilities and deferred revenues	19,012	4,309
Total current liabilities	19,867	6,741
Zero coupon convertible senior notes	90,000	—
Total liabilities	109,867	6,741
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Common Stock: $0.001 par value per share (75,400 authorized, 35,982 and 34,611 shares issued and outstanding at September 30, 2003 and December 31, 2002)	36	35
Treasury Stock	(2,003)	(2,003)
Additional paid-in capital	137,852	129,881
Deferred compensation	(20)	(42)
Accumulated other comprehensive income	446	547
Accumulated deficit	(58,399)	(73,187)
Total shareholders' equity	77,912	55,231
	$ 187,779	$ 61,972

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

SOHU.COM INC.
C ONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Revenues:	$ 8,748	$ 3,674	$ 20,025	$ 9,548
Advertising				
Non-advertising (including $0, $2,472, $19,879, and $5,231 from related parties, respectively)	13,332	3,834	35,815	8,617
Total revenues	22,080	7,508	55,840	18,165
Cost of revenues:				
Advertising (including $0, $36, $72, and $108 related party services, respectively)	1,973	1,472	5,325	4,430
Non-advertising (including $0, $873, $6,194, and $2,194 related party services, respectively)	4,928	1,871	13,103	4,919
Total cost of revenues	6,901	3,343	18,428	9,349
Gross profit	15,179	4,165	37,412	8,816
Operating expenses:				
Product development	1,968	1,474	5,642	3,959
Sales and marketing	2,839	1,862	7,366	5,749
General and administrative	1,181	955	3,575	2,906
Total operating expenses	5,988	4,291	16,583	12,614
Operating profit/(loss)	9,191	(126)	20,829	(3,798)
Other expense	(552)	(67)	(743)	(103)
Interest income	532	305	1,202	934
Net income/(loss) before taxes	9,171	112	21,288	(2,967)
Income tax expense	6,500	—	6,500	—
Net income/(loss)	2,671	112	14,788	(2,967)
Basic net income/(loss) per share	$ 0.07	$ 0.00	$ 0.42	$ (0.08)
Shares used in computing basic net income/(loss) per share	35,824	35,715	35,289	35,660
Diluted net income/(loss) per share	$ 0.07	$ 0.00	$ 0.38	$ (0.08)
Shares used in computing diluted net income/(loss) per share	41,643	37,413	39,728	35,660

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

SOHU.COM INC.
C ONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2003	**2002**
Cash flows from operating activities:		
Net income (loss)	$ 14,788	$ (2,967)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Tax benefits from stock options	6,500	—
Depreciation and amortization of other assets	3,638	3,729
Provision for valuation allowance for long-term loans to related parties	209	173
Provision for assets held for disposal	345	—
Loss on disposal of fixed assets	31	—
Provision for allowance for doubtful accounts	(3)	798
Stock-based compensation expense	(2)	13
Changes in assets and liabilities:		
Accounts receivable	(3,376)	(1,736)
Accounts receivable from related parties	(6,006)	—
Prepaid and other current assets	(1,118)	539
Accounts payable	95	476
Payable to related parties	—	241
Accrued liabilities and deferred revenues	14,204	551
Net cash provided by operating activities	29,305	1,817
Cash flows from investing activities:		
Long-term investments in marketable debt securities	(19,108)	(2,832)
Loans to related parties	—	(3,264)
Cash included in variable interest entities	2,642	—
Acquisition of fixed assets	(2,288)	(2,080)
Acquisition of other assets	(1,416)	(144)
Net cash used in investing activities	(20,170)	(8,320)
Cash flows from financing activities:	—	—
Issuance of common stock pursuant to Stock Incentive Plan	1,441	79
Zero coupon convertible senior notes	87,750	—
Net cash provided by financing activities	89,191	79
Net increase (decrease) in cash and cash equivalents	98,326	(6,424)
Cash and cash equivalents at beginning of period	18,929	29,263
Cash and cash equivalents at end of period	117,255	22,839

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited, in thousands)

	Common Stock							
	Shares Issued	Amount	Treasury Stock	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income/(Loss)	Accumulated Deficit	Total Shareholder's Equity
Balance, December 31, 2002	34,611	$ 35	$ (2,003)	$ 129,881	$ (42)	$ 547	$ (73,187)	$ 55,231
Net income	—	—	—	—	—		14,788	14,788
Unrealized gains on marketable debt securities	—	—	—	—	—	(90)	—	(90)
Foreign currency translation adjustment	—	—	—	—	—	(11)	—	(11)
Comprehensive income	—	—	—	—	—	—	—	14,687
Compensatory stock options	—	—	—	(25)	22	—		(3)
Issuance of common stock pursuant to stock incentive plan	1,371	1	—	1,496	—	—	—	1,497
Tax benefits from stock options	—	—	—	6,500	—	—	—	6,500
Balance, September 30, 2003	35,982	$ 36	$ (2,003)	$ 137,852	$ (20)	$ 446	$ (58,399)	$ 77,912

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

1. THE COMPANY AND BASIS OF PRESENTATION

Sohu.com Inc. (“Sohu” or the “Company”) is a Delaware company. The Company does not have any substantive operations of its own and substantially all of its primary business operations are conducted through its intermediate holding company, Sohu.com Limited, its indirect wholly owned subsidiaries, Sohu ITC Information Technology (Beijing) Co., Ltd. (“Beijing ITC”) and Beijing Sohu New Era Information Technology Co., Ltd. (“Sohu Era”), and its variable interest entities, Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”) and Beijing Sohu Online Network Information Services, Ltd. (“Beijing Sohu”). Sohu.com Limited was established in May 2003. Sohu Era and Sohu Internet were established in July 2003.

The accompanying unaudited consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

These financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements.

2. ADVERTISING REVENUE RECOGNITION

Advertising revenues are derived principally from standard, sponsorship and retail contracts, most of which are one year or less in duration. Such contracts establish the fixed price and advertising services to be provided. Pursuant to advertising contracts, the Company provides advertisement placements on various Web site channels and in different formats, including but not limited to banners, links, logos, buttons, content integration and email marketing. Revenue is recognized ratably over the period the advertising is provided and, as such, the Company considers the services to have been delivered. Based upon the Company’s credit assessments of its customers prior to entering into contracts, the Company determines if collectibility is reasonably assured. In situations where collectibility is not deemed to be reasonably assured, the Company recognizes revenue upon payment from the customer.

As of July 1, 2003, the Company adopted EITF 00-21, Revenue Arrangements with Multiple Deliverables (“EITF 00-21”), and recognized revenue for the contracted amount ratably over the contract period. Prior to the adoption of EITF 00-21, the Company recognized revenue for individual services ratably over the period the individual advertisement was displayed. In estimating the contract value to be allocated to the individual services, the Company used prices contained in its standard rate cards and the average sell rates. The adoption of EITF 00-21 did not have a material impact on the Company’s revenue.

3. CONCENTRATIONS

Substantially all of the Company’s e-subscription revenue for all periods presented is derived from providing value added mobile-related messaging services. The Company relies on two third party network operators and their subsidiaries for the billing of and collection from mobile phone users. If the annual contracts with these operators were not renewed or were terminated, the Company’s e-subscription business could be adversely affected.

4. ACCOUNTS RECEIVABLE, NET

The Company makes estimates of the uncollectability of accounts receivable based on historical bad debts, customer credit-worthiness, current economic trends and changes in customer payment terms. A provision is made against accounts receivable to the extent they are considered uncollectible.

The following summarizes the activity in the allowance for doubtful accounts receivable for the nine months ended September 30, 2003 and 2002 (in thousands):

	Nine months Ended September 30,	
	2003	2002
Balance at beginning of period	$ 924	$ 651
Additional provision	383	1,392
Write-offs	(464)	(594)
Cash collected	(386)	(690)
Balance at end of period	$ 457	$ 759

5. SEGMENT INFORMATION

Based on the criteria established by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company operates in three principal business segments. The Company does not allocate any operating costs, including Web site operating costs, or assets to its two principal non-advertising segments as management does not use this information to measure the performance of the operating segments.

Summarized information by segment for the three and nine months ended September 30, 2003 and 2002 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenues:				
Advertising	$ 8,748	$ 3,674	$ 20,025	$ 9,548
Non-advertising:				
E-subscription	12,640	2,582	32,882	5,348
E-commerce	692	1,207	2,851	3,035
Other	—	45	82	234
Subtotal non-advertising revenues	13,332	3,834	35,815	8,617
Total revenues	22,080	7,508	55,840	18,165
Cost of revenues:				
Advertising	1,973	1,472	5,325	4,430
Non-advertising:				
E-subscription	4,299	888	10,575	2,104
E-commerce	629	983	2,528	2,551
Other	—	—	—	264
Subtotal non-advertising cost of revenues	4,928	1,871	13,103	4,919
Total cost of revenues	6,901	3,343	18,428	9,349
Gross profit	$ 15,179	$ 4,165	$ 37,412	$ 8,816

6. 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 and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of shares issuable upon the exercise of stock options (using the treasury stock method) and zero coupon convertible senior notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Numerator:				
Net income (loss)	$ 2,671	$ 112	$ 14,788	$ (2,967)
Effect of dilutive securities:				
Zero coupon convertible senior notes	166	—	166	—
Net income (loss) adjusted for dilutive securities	$ 2,837	$ 112	$ 14,954	$ (2,967)
Denominator:				
Weighted average basic common shares outstanding	35,824	35,715	35,289	35,660
Effect of dilutive securities:				
Stock options	4,180	1,698	3,887	—
Zero coupon convertible senior notes	1,639	—	552	—
Weighted average diluted common shares outstanding	41,643	37,413	39,728	35,660
Basic net income (loss) per share	$ 0.07	$ 0.00	$ 0.42	$ (0.08)
Diluted net income (loss) per share	$ 0.07	$ 0.00	$ 0.38	$ (0.08)

For the nine months ended September 30, 2002, potential common shares related to shares issuable upon the exercise of stock options of 4.4 million were not included in the computation because the effect of inclusion would be anti-dilutive.

7. ZERO COUPON CONVERTIBLE SENIOR NOTES

The Company completed a private placement on July 14, 2003 of $90 million principal amount of zero coupon convertible senior notes due July 2023, which resulted in net proceeds to the Company of approximately $87,350,000 after deduction of the initial purchaser’s discount and our offering expenses. The notes do not pay any interest, have a zero yield to maturity, and are convertible into the Company’s common stock at a conversion price of $44.76 per share, subject to adjustment for dividends, distributions, and upon the occurrence of certain other events. Each $1,000 principal of the notes is initially convertible into 22.3414 shares of common stock of the Company. Each holder of the notes will have the right, at the holder’s option, to require the Company to repurchase all or any portion of the principal amount of the holder’s notes on July 14 in 2007, 2013 and 2018 at a price equal to 100% of the outstanding principal amount. The Company may also redeem all or a portion of the notes for cash at any time on or after July 14, 2008 at 100% of the principal amount of the notes if the closing price of its common stock for each of the 30 consecutive trading days prior to such time was at least 130% of the conversion price or at such time at least 90% of the initial aggregate principal amount of the notes have been converted, repurchased or redeemed. In addition, upon a change of control event, each holder of the notes has the right to require the Company to repurchase some or all of its notes at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. The notes are effectively subordinated to the Company’s trade debt. The Company has filed a registration statement with the Securities and Exchange Commission to register for resale the notes and the common stock issuable upon conversion of the notes. However, until the registration statement becomes effective, the notes may be offered and sold only in transactions that are exempt from registration under the U.S. Securities Act of 1933 and the securities laws of any other applicable jurisdiction.

8. VARIABLE INTEREST ENTITIES AND RELATED PARTY TRANSACTIONS

a) Variable Interest Entities

Effective July 1, 2003, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 46, "*Consolidation of Variable Interest Entities*" ("FIN 46"). Pursuant to FIN 46, Beijing Sohu, Beijing Century High-Tech Investment Co., Ltd. ("High Century"), Beijing Hengda Yitong Internet Technology Development Co., Ltd. ("Hengda"), and Sohu Internet are variable interest entities ("VIEs") and the Company is the primary beneficiary. Accordingly, effective July 1, 2003, the VIEs have been consolidated in the Company's financial statements. The Company has not restated earlier periods for the adoption of FIN 46. Thus, prior to July 1, 2003, these entities were not consolidated in the Company's financial statements and transactions with and balances related to the VIEs have been disclosed as related parties. The Company records a valuation allowance against the long-term loans to the extent there are losses in these entities. As a result, the long-term loans to related party balance equals the net assets of the related VIE. Thus, the adoption of FIN 46 did not have an impact on the net income or net assets of the Company. The following table provides information about VIEs (in thousands):

Name of VIE	Business Purpose	Total assets at September 30, 2003	Total revenue for the three months ended September 30, 2003	Net income/(loss) for the three months ended September 30, 2003
Beijing Sohu	Internet Content Provider	$ 1,046	$ 8,095	$ (223)
Hengda	Internet Service Provider	1,208	335	1
Sohu Internet	Internet Content Provider	605	4,290	1
High Century	Investment holding	4,587	—	(345)

b) Related Party Transactions

The Company has entered into the following arrangements with Dr. Charles Zhang, the Company's Chief Executive Officer and a major Sohu shareholder, and certain employees of the Company to satisfy People's Republic of China ("PRC") regulations which prohibit or restrict foreign companies from owning or operating telecommunications, internet content and certain other businesses in China. The Company expects that it will continue to be involved in and provide additional financial support under similar arrangements in the future.

Under Section 402 of the Sarbanes-Oxley Act of 2002, issuers subject to the act are prohibited from making personal loans to their directors and executive officers. Under Section 402, issuers are permitted to maintain the loans they made to directors and executive officers prior to the effective date of the Sarbanes-Oxley Act. They are not permitted, however, to renew or materially modify such loans. The Company believes that there is a strong argument that the loans to Dr. Zhang described below are not "personal loans," in view of the Company's underlying business purpose for making the loans and the lack of a personal benefit to Dr. Zhang from the loans. In the absence of judicial interpretation, an SEC rule, or an SEC staff interpretation confirming the Company's conclusion, however, the Company intends to treat these loans as if they were "personal loans" under Section 402 of the Sarbanes-Oxley Act. Accordingly, the Company expects that if it enters into arrangements similar to those described below in the future, any loans made under such arrangements will be made to individuals who are not directors or executive officers of the Company. In addition, should the existing loans to Dr. Zhang, or to the entities in which he is the primary shareholder, need to be renewed or materially modified, such as if the Company needs to advance additional funds to any of these entities, the Company expects that the entities, the ownership of the entities and/or the loans to the entities will be restructured so that the Company could not be deemed to be making a loan to Dr. Zhang. The prohibitions set forth in Section 402 have not had any adverse effect on the Company's operations to date, and the Company does not expect them to have any adverse effect in the future.

In June 2000, the Company extended loans in the amount of $193,000 to Dr. Charles Zhang and $49,000 to He Jinmei, another employee of the Company, to finance their investments in Beijing Sohu, a company incorporated in the PRC. The shareholders of Beijing Sohu have pledged their shares in Beijing Sohu as collateral for the loan. These loans bear no interest and are due in full on the earlier of demand, in 2010 or at such time as Dr. Charles Zhang or He Jinmei, as the case may be, is not an employee of the Company. A subsidiary of the Company has entered into an option agreement giving it the right, at any time, subject to PRC law, to purchase the entire ownership in Beijing Sohu from the two Beijing Sohu shareholders for $242,000. Prior to the adoption of FIN 46 on July 1, 2003, these loans were included in long-term loans to related parties and the Company recorded a valuation allowance of $56,000 against long-term loans to related parties for losses incurred by Beijing Sohu.

In November 2001, the Company entered into a Loan and Share Pledge Agreement (the "Century Loan Agreement") with Dr. Charles Zhang, and Li Wei, another employee of the Company, for the purpose of funding an equity investment of $4,595,000 by these two individuals in High Century, a company incorporated in the PRC which engages in investment holding in the PRC on behalf of the Company. Pursuant to the Century Loan Agreement, the Company has extended total loans amounting to $4,595,000 of which $3,676,000 and $919,000 were loaned to Charles Zhang and Li Wei, respectively. Prior to the adoption of FIN 46 on July 1, 2003, these loans were included in long-term loans to related parties and the Company recorded a valuation allowance of $4,000 against long-term loans to related parties for losses incurred by High Century.

In January 2002, the Company entered into a Loan and Share Pledge Agreement (the "Hengda Loan Agreement") with Li Wei for the purpose of funding an equity investment of $242,000 by Li Wei in Beijing Hengda Yitong Internet Technology Development Co., Ltd. ("Hengda"), a company incorporated in the PRC which engages in Internet access services in the PRC on behalf of the Company. The $242,000 investment represents a 20% interest in Hengda, with High Century holding the remaining 80% interest. Prior to the adoption of FIN 46 on July 1, 2003, these loans were included in long-term loans to related parties and the Company recorded a valuation allowance of $3,000 against long-term loans to related parties for losses incurred by Hengda.

In June 2003, the Company entered into a Loan and Share Pledge Agreement (the "Internet Loan Agreement") with He Jinmei for the purpose of funding an equity investment of $121,000 by He Jinmei in Sohu Internet, a company incorporated in the PRC which engages in Internet information services in the PRC on behalf of the Company. The $121,000 investment represents a 20% interest in Sohu Internet, with High Century holding the remaining 80% interest.

The Century Loan Agreement, Hengda Loan Agreement and Internet Loan Agreement, which are subject to PRC law, include provisions that (i) the loans can only be repaid to the Company by transferring the shares of High Century, Hengda or Sohu Internet to the Company, (ii) the shares of High Century, Hengda or Sohu Internet cannot be transferred without the approval of the Company, and (iii) the Company has the right to appoint all directors and senior management personnel of High Century, Hengda and Sohu Internet. Charles Zhang, Li Wei and He Jinmei have pledged all of their shares in High Century, Hengda and Sohu Internet as collateral for the loans and the loans bear no interest and are due on demand after November 2003, in the case of High Century, after January 2003, in the case of Hengda, and after June 2004, in the case of Sohu Internet, or at such time as Dr. Charles Zhang, Li Wei or He Jinmei, as the case may be, is not an employee of the Company. The Company does not intend to request repayment of the loans as long as PRC regulations prohibit the Company from directly investing in businesses being undertaken by High Century, Hengda and Sohu Internet.

In April 2002, High Century invested $3,080,000 in Sohu-Guolian Information Technology Co., Ltd. ("Sohu-Guolian"), a company incorporated in the PRC, for a 51% equity interest in and joint control over Sohu-Guolian. As of June 30, 2003, the Company had recorded a valuation allowance of $398,000 against long-term loans to related parties for losses incurred by Sohu-Guolian. In September 2003, Sohu-Guolian commenced liquidation procedures. During the three months ended September 30, 2003, the Company made a provision of $345,000 against the investment in Sohu-Guolian. At September 30, 2003, the investment in Sohu-Guolian was included as assets held for disposal.

Beijing Sohu contracted with network operators for e-subscription revenues of $7,403,000 and $26,858,000 during the three and nine months ended September 30, 2003, respectively, as compared to $2,472,000 and $5,231,000 in the corresponding three and nine month periods in 2002. Beijing Sohu also generated e-commerce sales of $692,000 and $2,851,000 during the three and nine months ended September 30, 2003, respectively, as compared to $1,204,000 and $3,032,000 in the corresponding three and nine month periods in 2002. Sohu Internet contracted with network operators for e-subscription revenues of $4,290,000 for each of the three and nine months ended September 30, 2003. There were no revenues recorded during the three and nine months ended September 30, 2002 because Sohu Internet was formed in the third quarter of 2003. Hengda contracted with a network operator for e-subscription revenues of $335,000 and $670,000 for Internet access services during the three and nine months ended September 30, 2003, respectively. There were no revenues recorded during the three and nine months ended September 30, 2002 because Hengda's operations started in the first quarter of 2003. For the three months ended September 30,2003, these revenues were consolidated under FIN 46. For the six months ended June 30, 2003, these revenues were included as related party revenues.

Approximately 60% of the Company's e-commerce cash on delivery services in Beijing are being provided by Beijing Qingfan Delivery Co., Ltd. ("Qingfan"), a company owned by Zhang Tao, the brother of Dr. Charles Zhang, Sohu's Chief Executive Officer, President and Chairman, and a major Sohu stockholder. Total delivery fees paid by the Company to Qingfan were approximately $20,000 and $88,000 for the three and nine months ended September 30, 2003, as compared to $20,000 for each of the three and nine months ended September 30, 2002.

9. INCOME TAXES

The Company is subject to taxes in the United States, the People's Republic of China, and Hong Kong. The Company's subsidiaries in China are governed by the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and local income tax laws (the "PRC Income Tax Law"). Pursuant to the PRC Income Tax Law, wholly-owned foreign enterprises are subject to tax at a statutory rate of 33% (30% state income tax plus 3% local income tax), or 15% for certain technology enterprises, on PRC taxable income. Furthermore, new technology enterprises are exempted from Chinese state corporate income tax for three years, beginning with their first year of operations, and are entitled to a 50% tax reduction at the rate of 7.5% for the subsequent three years and 15% thereafter. Commencing in the third quarter of 2003, the Company's China based subsidiaries Sohu Era, Sohu Software and its VIE Sohu Internet are entitled to these tax benefits available to "new technology enterprises".

During the three months ended September 30, 2003 the Company recorded U.S. federal income tax expense of $6,500,000 associated with a tax restructuring and other taxable income. During the same period, the Company was entitled to a tax deduction related to employees exercising their stock options and accordingly, did not fully utilize existing U.S. federal net operating losses carried forward. The benefit of the stock option deduction has been recorded in additional paid in capital.

10. COMMITMENTS AND CONTINGENCIES

The Chinese market in which the Company operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Company to operate an Internet business, and to conduct advertising, e-commerce and subscription 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 or are unclear with respect to which specific segments of these industries foreign owned entities, like the Company, may operate. The Company's legal structure and scope of operations in the PRC could be subjected to restrictions which could result in severe limits to the Company's ability to conduct business in the PRC.

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," "Sohu" and "Sohu.com" are to Sohu.com Inc., and, except where the context requires otherwise, our subsidiaries ChinaRen Inc. (or ChinaRen), Sohu.com (Hong Kong) Limited (or Sohu Hong Kong), Sohu.com Limited, Sohu ITC Information Technology (Beijing) Co., Ltd. (or Beijing ITC), Beijing Sohu New Era Information Technology Co., Ltd. (Sohu Era), and Beijing Sohu Interactive Software Co., Ltd. (Sohu Software), and our affiliates Beijing Sohu Online Network Information Services, Ltd. (or Beijing Sohu), Beijing Century High Tech Investment Co., Ltd. (or High Century), Beijing Hengda Yitong Internet Technology Development Co., Ltd. (or Hengda), and Beijing Sohu Internet Service Co. Ltd. (or Sohu Internet) 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 below under the caption "Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

We are a leading Internet portal in China in terms of brand recognition, page views and registered users. Our portal consists of sophisticated Chinese language Web navigational and search capabilities, 17 main content channels, Web-based communications and community services and a platform for e-subscriptions (consisting mainly of mobile telephone-related messaging services, or wireless services) and e-commerce. Each of our interest-specific main channels contains multi-level sub-channels that cover a comprehensive range of topics, including news, business, entertainment, sports and career. We also offer free Web-based e-mail. We offer a universal registration system, whereby a user that has registered for our e-mail service is automatically registered for our chat, bulletin board, instant messaging and other services. Our portal attracts consumers and merchants alike because it is designed to meet the specific needs and interests of Internet users in China. Key features include proprietary Web navigational and search capabilities that reflect the unique cultural characteristics and thinking and viewing habits of PRC Internet users. ChinaRen is an online portal located in China that targets mainland Chinese Internet users with its strong community products.

We derive revenues primarily through the sale of advertising, e-subscriptions (consisting mainly of wireless services) and e-commerce.

We were organized in 1996 as Internet Technologies China Incorporated, and launched our original Web site, itc.com.cn, in January 1997. In February 1998, we re-launched our Web site under Sohu.com. In September 1999, we renamed our company Sohu.com Inc. Substantially all of our operations are conducted through our indirect wholly owned PRC subsidiary Sohu ITC Information Technology (Beijing) Co., Ltd.

Effective on July 18, 2003, as part of a tax restructuring intended to reduce the rate of income taxes we pay in the PRC, we transferred various assets, including our domain names (including www.sohu.com and www.chinaren.com), our trademarks, all of the issued and outstanding shares of Beijing ITC and Sohu Hong Kong, and the rights under loans payable to Sohu.com Inc. by Beijing Sohu, High Century, Hengda, and Sohu Internet, to Sohu.com Limited, a Cayman Islands corporation which is a newly formed wholly-owned subsidiary of Sohu.com Inc. In July 2003, Sohu Era and Sohu Software were incorporated in the PRC and during the three months ended September 30, 2003 were approved as new technology enterprises, which are subject to lower tax rates in China than companies which do not have new technology enterprise status. During the three months ended September 30, 2003, we incurred a non-cash tax charge of $6,500,000 as a result of this restructuring.

Also effective July 18, 2003, the audit committee of our Board of Directors pre-approved the provision by our auditor, PricewaterhouseCoopers, of tax advice and services to Sohu, including the filing of our 2002 and 2003 tax returns.

As of September 30, 2003, we had an accumulated deficit of $58.4 million as a result of significant net losses from our inception through the quarter ended June 30, 2002. These losses were funded with proceeds of preferred stock private placements and our initial public offering completed in July 2000. We may incur substantial net losses in the future due to the relative high risk associated with our revenue and the high level of planned operating and capital expenditures, including sales and marketing costs, personnel hires, and product development. We anticipate funding such losses, if any, with the remaining proceeds from our initial public offering, the proceeds of the private placement of zero coupon convertible senior notes we completed in July 2003, and our cash, cash equivalents, and investments.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

Sohu’s discussion and analysis of its financial condition and results of operations are based upon Sohu’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Sohu to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Sohu evaluates its 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. Sohu believes accounting for advertising revenue, accounting for e-subscriptions revenues, gross versus net basis of revenue recognition, allowance for doubtful accounts, and valuation allowance against deferred tax assets represent critical accounting policies which reflect more significant judgments and estimates used in the preparation of our consolidated financial statements.

We generate advertising revenue from standard, sponsorship and retail contracts, most of which are one year or less in duration. Such contracts establish the fixed price and advertising services to be provided. Pursuant to advertising contracts, we provide advertisement placements on various Web site channels and in different formats, including but not limited to banners, links, logos, buttons, content integration and email marketing. Revenue is recognized ratably over the period the advertising is provided and, as such, we consider the services to have been delivered. Based upon our credit assessments of our customers prior to entering into contracts, we determine if collectibility is reasonably assured. In situations where collectibility is not deemed to be reasonably assured, we recognize revenue upon payment from the customers.

As of July 1, 2003, we adopted EITF 00-21, Revenue Arrangements with Multiple Deliverables ("EITF 00-21"), and recognized revenue for the contracted amount ratably over the contract period. Prior to the adoption of EITF 00-21, we recognized revenue for individual services ratably over the period the individual advertisement was displayed. In estimating the contract value to be allocated to the individual services, we used prices contained in our standard rate cards and the average sell rates. The adoption of EITF 00-21 did not have a material impact on our revenue.

Sponsorship contracts may include services similar to those in our standard advertising contracts, are generally for larger dollar amounts and for a longer period of time, may allow advertisers to sponsor a particular area on our Website, may include brand affiliation services and/or a larger volume of services, and may require some exclusivity or premier placements. Sponsorship advertisement revenues are normally recognized on a straight line basis over the contract period and when collection of the resulting receivable is reasonably assured provided we are meeting our obligations under the contract. Pursuant to retail advertising contracts, which are normally for lower dollar amounts and are with small and medium size enterprises, we provide services which include listings in our search directory or our classified advertisements section, normally for a fixed annual fee, and priority placements on search results for a fixed fee or variable pricing based on bidding by different competitors. For retail advertising contracts, revenue is recognized as the service is provided, which is normally on a straight line basis over the term of the contract, and collection of the resulting receivable is reasonably assured. Material differences could result in the amount and timing of our revenue for any period if management made different judgments or utilized different estimates.

E-subscription revenues are included within non-advertising revenues and are derived principally from providing value added wireless services such as alumni club, dating and friends matching, e-mail, ringtone and logo downloads and various other related products to mobile phone users. E-subscription fees are charged on a monthly or per message basis. E-subscription revenues are recognized in the month in which the service is performed, provided no significant Sohu obligations remain. We rely on a number of mobile network operators in China to bill mobile phone users for e-subscription fees. In order to meet ownership requirements under PRC law which restrict or prohibit us from being an Internet content provider or directly providing telecommunications services such as e-subscriptions, we rely on Beijing Sohu to contract with the mobile operators. Generally, (i) within 15 to 90 days after the end of each month, Beijing SohuorSohu Internet receives a statement from each of the operators confirming the amount of e-subscription charges billed to that operator's mobile phone users and (ii) within 30 to 120 days after delivering a monthly statement to Beijing Sohuor Sohu Internet each operator remits the e-subscription fees, net of its service fees, for the month to Beijing Sohu or Sohu Internet, which then transfers the funds to our subsidiaries Beijing ITC or Sohu Era. In order to recognize revenue and get paid for services provided, we rely on billing confirmations from the mobile network operators as to the actual amount of services they have billed to their mobile customers. We do not collect e-subscription fees from an operator in certain circumstances due to technical issues with the operator's network. This is referred to as the "failure rate," which can vary from operator to operator. An operator's failure rate can vary from month to month, and in the past has ranged from 5% to 80% with recent average failure rates of around 25%, and may change at any time without notice. If an operator encounters technical problems, increases in the failure rate for that operator could occur. CMCC Beijing is currently in the process of establishing a new billing platform and may require us to switch to this platform in the future. The new platform may result in higher failure rates. At the end of each reporting period, where an operator has not provided Beijing Sohu or Sohu Internet with the monthly statement for any month confirming the amount of e-subscription charges billed to that operator's mobile phone users for the month, Sohu, using information generated from its own internal system and historical data, makes estimates of the failure rate and collectable e-subscription fees and accrues revenue accordingly. Material differences could result in the amount and timing of our revenue for any period because of differences between the actual failure rate per an operator's statement and our internal records.

Our management must determine whether to record revenue for our e-subscriptions and e-commerce business lines using the gross or net method of reporting. Determining whether revenue should be reported gross or net is based on an assessment of various factors, principally whether Sohu is acting as the principal in offering services to the customer or whether Sohu is acting as an agent in the transaction. To the extent Sohu is acting as a principal in a transaction Sohu reports as revenue the payments received on a gross basis and reports as costs of revenue the amounts attributable to goods and services provided by third party operators and other vendors. To the extent Sohu is acting as an agent in a transaction Sohu reports as revenue the payments received less commissions and other payments to third parties, i.e., on a net basis. The determination of whether Sohu is serving as principal or agent in a transaction is judgmental in nature and based on an evaluation of the terms of an arrangement.

Based on our assessment, our e-subscriptions revenues are recorded on a gross basis. The majority of our e-commerce revenues are recorded on a gross basis but, depending on the terms of particular contracts with our suppliers, the net basis is also used. To the extent revenues are recorded gross, any commissions or other payments to third parties are recorded as expenses so that the net amount (gross revenues, less expenses) flows through operating income. Accordingly, the impact on operating income is the same, whether Sohu records the revenue on a gross or net basis.

Our management must make estimates of the uncollectability of our accounts receivables. Management specifically analyzes accounts receivable, historical bad debts, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was $11.8 million net of allowance for doubtful accounts of $457,000 as of September 30, 2003. If the financial condition of Sohu's customers or telecom operators were to deteriorate, resulting in their inability to make payments, additional allowance might be required.

As of September 30, 2003, due to our history of cumulative losses, we have recorded a full valuation allowance against our gross deferred tax assets in order to reduce our deferred tax assets to the amount that is more likely than not to be realized. If events were to occur in the future that would allow us to realize more of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred.

RESULTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

REVENUES

Total net revenues were $22.1 million and $55.8 million for the three and nine months ended September 30, 2003, respectively, as compared to $7.5 million and $18.2 million for the corresponding three and nine month periods in 2002. For the three months ended September 30, 2003 and 2002, advertising revenues constituted $8.7 million and $3.6 million, or 40% and 49% of total revenues, respectively, and non-advertising revenues were $13.3 million and $3.8 million, or 60% and 51% of total revenues, respectively. For the nine months ended September 30, 2003 and 2002, advertising revenues constituted $20.0 million and $9.5 million, or 36% and 53% of total revenues, respectively, and non-advertising revenues were $35.8 million and $8.6 million, or 64% and 47% of total revenues, respectively.

Advertising Revenues

Advertising revenues increased by $5.1 million to $8.7 million for the three months ended September 30, 2003 and increased by $10.5 million to $20.0 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. As online advertising is relatively new and developing in China there are a number of factors which have contributed to our growth. Part of the increase was due to the development and growth from our paid listing business (we receive fees for listing companies in our search directory), where paid listing revenues increased by $755,000 to $1.5 million for the three months ended September 30, 2003 and increased by $2.2 million to $3.8 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. Because of the evolving and dynamic nature of our business, including the advertising patterns of our customers, it is not possible for us to quantify the amount of increases attributable to other factors, which include higher advertising rates of approximately 40%, the increasing number of advertisers purchasing space on our online media properties and larger and longer-term purchases by certain advertisers. Sales to Sohu's five largest advertisers were 11% of total advertising revenues for each of the three and nine months ended September 30, 2003, respectively, as compared to 13% and 11% of total advertising revenues for the corresponding three and nine month periods in 2002. As of September 30, 2003 and 2002, we recorded $4.0 million and $1.3 million of deferred revenues, respectively.

Non-advertising Revenues

Non-advertising revenues, which have been the fastest growing part of our business, are derived principally from monetizing our users (i.e. consumers) via e-subscription services.

Non-advertising revenues increased by $9.5 million to $13.3 million for the three months ended September 30, 2003 and increased by $27.2 million to $35.8 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. Non-advertising revenues for the three months ended September 30, 2003 were derived from e-subscription fees of $12.6 million and e-commerce services of $692,000. Prior to our adoption of FIN 46 on July 1, 2003, which resulted in the consolidation of our variable interest entities, substantially all of our non-advertising revenue was from related parties.

Most of the growth in non-advertising revenues was attributable to increases in e-subscriptions revenue. E-subscription fees increased by $10.1 million to $12.6 million for the three months ended September 30, 2003 and increased by $27.5 million to $32.9 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. For the three months and nine months ended September 30, 2003 approximately 93% and 95% of e-subscription revenues, respectively, were derived from providing value added wireless services, such as alumni club, dating and friends matching, e-mail, ringtone and logo downloads and various other related products, to mobile phone users. Wireless-related e-subscription fees are charged on a monthly or per message basis. Currently, approximately 80% of our wireless revenue is from consumers who subscribe for monthly services, for which we charge a monthly fee ranging from approximately $0.60 to $4.00.

Our wireless services were introduced in China in late 2000 and our growth in this area over the past two years has been mainly attributable to a combination of a number of factors, such as increases in the number of Chinese mobile phone users who have been subscribing for our wireless services and our introduction of new products to the market. The unique characteristics of the China mobile phone and internet users are important factors for the growth of this business. Product development is especially important because these services have only recently become available in China and some of the services we offer are unique to China. Presently we provide over 500 different monthly subscription wireless services and over 150 services which are charged on a per message basis. We regularly introduce new products and adaptations to our existing products. Depending on the product, subscribers may use the product for as short as one month or may use it on an ongoing basis. As described below, there are certain products and marketing methods which have contributed to our growth. Price increases have not been a factor in our wireless growth, because we have many different products and pricing is normally set when the product is launched and remains unchanged during the life of the product. Approximately 25% of our growth was attributable to improvements in the wireless billing and transmission platform, as our approximate billing failure rate during the nine months ended September 30, 2003 was 25%, as compared to 40% for the nine months ended September 30, 2003.

During the past nine months the largest contributor to our wireless related e-subscriptions growth has been our online dating and friends matching service, which we refer to as “Jiqinggongshe” or “GGMM,” and accounted for approximately 25 percent of our wireless revenue. We developed this product in the fourth quarter of 2002, and it accounted for approximately 12% of our revenue in the fourth quarter of 2002. Most of our GGMM subscribers were acquired through website union, where we used third party websites to market our products. At the instruction of the mobile operators, we stopped using website union in July 2003. We also used website union for marketing numerous other products, which, excluding GGMM, accounted for approximately 15 percent of our total revenue for the nine months ended September 30, 2003. As a result of our inability to use website union to promote our products or acquire subscribers, we experienced substantially lower growth in e-subscriptions revenue for the three months ended September 30, 2003 as compared to the three months ended June 30, 2003, March 31, 2003 and December 31, 2002. Because our use of website union is restricted, we expect our subscriber base for products previously promoted through website union to continue to decline. Our future growth in e-subscriptions revenue could be materially less than historical growth.

The future growth and sustainability of our e-subscription revenues is dependent upon user acceptance of our existing and new services, especially services, such as GGMM, which are paid by way of monthly subscriptions. Because these services are new and untested, we do not have a clear understanding of consumer behavior, making it difficult to predict future growth or usage.

E-commerce revenues are earned from direct sales of consumer products through Sohu’s Web site. In 2001, we established store.sohu.com where we undertake fulfilment e-commerce activities and conduct e-commerce transactions. Our e-commerce products consist of over 4,000 consumer products such as books, health care products, videos, music and computer equipment. We purchase products from suppliers, stock the goods in our warehouse and, upon receiving the orders from our Web site, arrange for delivery to our customers, most of whom are individuals in Beijing, Shanghai and Guangzhou. Fulfilment is provided by delivery companies or through postal services. Substantially all sales are done on a cash on delivery basis. E-commerce revenue decreased by $515,000 to $692,000 for the three months ended September 30, 2003 and decreased by $184,000 to $2.9 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002, because we discontinued sales of cosmetics in the third quarter ended September 30, 2003.

COSTS AND EXPENSES

Cost of Revenues

Total cost of revenues increased by $3.6 million to $6.9 million for the three months ended September 30, 2003 and increased by $9.1 million to $18.4 million for the nine months ended September 30, 2003, as compared to the three and nine month periods in 2002. For the three months ended September 30, 2003 and 2002, advertising cost of revenues constituted $2.0 million and 1.5 million, or 29% and 44% of total cost of revenues, respectively, and non-advertising cost of revenues was $4.9 million and $1.9 million, or 71% and 56% of total cost of revenues, respectively. For the nine months ended September 30, 2003 and 2002, advertising cost of revenues constituted $5.3 million and $4.4 million, or 29% and 47% of total cost of revenues, respectively, and non-advertising cost of revenues was $13.1 million and $4.9 million, or 71% and 53% of total cost of revenues, respectively.

Advertising Cost of Revenues

Advertising cost of revenues include personnel costs and personnel overhead, content purchases, depreciation and bandwidth, which are fairly fixed in nature and accordingly do not tend to increase or decrease proportionately with revenue.

Our advertising gross margin for the three months ended September 30, 2003 was 77% as compared to 60% for the three months ended September 30, 2002. Our advertising gross margin for the nine months ended September 30, 2003 was 73% as compared to 54% for the nine months ended September 30, 2002. Our gross margins improved because most of the costs of advertising are fairly fixed and have not increased at the same rate as revenue growth.

Advertising cost of revenues increased by $501,000 to $2.0 million for the three months ended September 30, 2003 and increased by $895,000 to $5.3 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. The increase for the three months ended September 30, 2003 was primarily due to higher spending on headcount of $300,000 and an increase in spending for content of $214,000 as we expanded our channel offerings, offset by reductions of $13,000 in various other categories. The increase for the nine months ended September 30, 2003 was primarily due to higher spending on headcount of $615,000 and an increase in content payments of $369,000, offset by a reductions of $89,000 in certain other categories such as bandwidth.

Non-advertising Cost of Revenues

Non-advertising cost of revenues increased by $3.1 million to $4.9 million for the three months ended September 30, 2003 and increased by $8.2 million to $13.1 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. Prior to our adoption of FIN 46 on July 1, 2003, which resulted in the consolidation of our variable interest entities, substantially all non-advertising cost of revenues was from related parties.

Our e-subscriptions gross margin for the three months ended September 30, 2003 was 66%, approximately the same as for the three months ended September 30, 2002. Our e-subscriptions gross margin for the nine months ended September 30, 2003 was 68% as compared to 61% for the nine months ended September 30, 2002. For the three and nine months ended September 30, 2003, non-advertising cost of revenues included $4.3 million and $10.6 million, respectively, in e-subscription cost of revenues, which consists mainly of subscription collection and wireless transmission charges paid to third party network operators. E-subscription cost of revenues does not include allocations for Web site operating costs. The fees vary between third party operators and include a gateway fee of $0.006 to $0.012 per message, depending on the volume of the monthly total wireless messages, and a collection fee of 12% to 15%, based on the total fees collected by the third party operators from mobile phone users and paid to us. As the operator fees are charged on a per message basis and as a percentage of revenue, the increase in e-subscriptions cost of revenue is consistent with our increase in wireless revenues. There have been no significant changes in the third party network operator fees over the past two years.

Our e-commerce gross margin for the three months ended September 30, 2003 was 9% as compared to 19% for the three months ended September 30, 2002. Our e-commerce gross margin for the nine months ended September 30, 2003 was 11% as compared to 16% for the nine months ended September 30, 2002. Our gross margins were reduced due to market price competition and the fact that we started providing free shipping in 2003, which increased our non-advertising cost of revenues. For the three and nine months ended September 30, 2003, non-advertising cost of revenues included $629,000 and $2.5 million, respectively, in e-commerce cost of revenues consisting of the purchase price of consumer products sold by Sohu and inbound and outbound shipping charges. E-commerce cost of revenues do not include allocations for Web site operating costs. The change in e-commerce cost of revenues from the comparative period in 2003 is attributable to the reduction in sales volume.

Product Development Expenses

Product development expenses increased by $494,000 to $1.9 million for the three months ended September 30, 2003 and increased by $1.7 million to $5.6 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. The increase for the three months ended September 30, 2003 was primarily attributable to increased headcount spending of $455,000 and $39,000 for various other categories. The increase for the nine months ended September 30, 2003 was primarily due to increased headcount of $1.4 million, online games development of $100,000 and $195,000 for various other categories.

Sales and Marketing Expenses

Sales and marketing expenses increased by $977,000 to $2.8 million for the three months ended September 30, 2003 and increased by $1.6 million to $7.4 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. The increase for the three months ended September 30, 2003 was primarily due to increased marketing spending of $381,000, increased personnel expenses of $361,000 and $235,000 for various other categories. The increase for the nine months ended September 30, 2003 was primarily due to increased personnel expense of $1.0 million, advertising and promotion expense of $1.2 million and $274,000 for various other categories, offset by the decreased provision for bad debts of $858,000 associated with the implementation of tighter credit policies.

General and Administrative Expenses

General and administrative expenses increased by $226,000 to $1.2 million for the three months ended September 30, 2003 and increased by $669,000 to $3.6 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. The increase for the three months ended September 30, 2003 was primarily due to increased professional fees of $169,000 and $57,000 for various other categories. The increase for the nine months ended September 30, 2003 was primarily due to increased professional fees of $658,000 and $11,000 for various other categories.

Operating Profit (Loss)

As a result of the foregoing, we had operating profit of $9.2 million and $20.8 million for the three and nine months ended September 30, 2003 as compared to operating loss of $126,000 and $3.8 million for the corresponding three and nine month periods in 2002.

Interest Income

Interest income increased by $227,000 to $532,000 for the three months ended September 30, 2003 and increased by $268,000 to $1.2 million for the nine months ended September 30, 2003, as compared to the corresponding three and nine month periods in 2002. The increases were mainly due to our increased cash balance and investments as a result of our private placement of zero coupon convertible senior notes in July 2003 and an increase in our profits from quarter to quarter.

Income Tax Expense

Income tax expense was $6.5 million for the three and nine months ended September 30, 2003 and $0 for the corresponding periods in 2002. The increase in income tax expense was due to income tax expense associated with a tax restructuring undertaken during the three months ended September 30, 2003 and other taxable income. We were not profitable in the previous year and, accordingly, had no taxable income. As of September 30, 2002 we had provided a full valuation allowance for our deferred tax assets.

Effective for the fourth quarter of 2003, most of our income is earned in China by Sohu Era, Sohu Internet and Sohu Software which, as new technology enterprises, are subject to taxation at 0 percent for each of three years ended December 31, 2005, 7.5 percent for each of three years ended December 31, 2008 and 15 percent thereafter. If Sohu Era, Sohu Internet and Sohu Software do not continue to meet the definition of a new technology enterprise or there are changes in the taxation policies of the PRC government, their income would be subject to taxation at the rate of 33 percent.

Income earned in the United States where Sohu.com Inc. is incorporated is subject to taxation at 34%. Going forward we anticipate the only significant income earned in the United States and subject to United States taxation to be interest income. If dividends are paid by our China or other non-U.S. subsidiaries to Sohu.com Inc., the dividends would be taxed at the Sohu.com's rate of taxation which is 34 percent. At this time, we do not intend for the China or other non-U.S. subsidiaries to pay dividends to Sohu.com.

In the fourth quarter of 2003, we expect our effective tax rate to be between 0 and 10 percent. For 2004 and 2005, we do not anticipate having our Chinese subsidiaries pay dividends to Sohu and, if most of our operating subsidiaries continue to meet the definition of new technology enterprises, our effective tax rate on a group basis should be less than 3 percent. However if we undertake new businesses in China which do not meet the requirements of a new technology enterprise, we would be subject to taxation on this income at 33 percent.

Accordingly, our future effective tax rate could vary between 0 percent and 34 percent due to a variety of factors, including, but not limited to, the relevant income contribution by Chinese entities taxed at 0 to 33 percent and U.S. operations taxed at 34 percent, the ability of our operating subsidiaries to meet the requirements of a new technology enterprises which are taxed at a maximum of 15 percent (which is less than the normal China corporate tax rate of 33 percent), dividends paid by the subsidiaries in China or intermediate holding companies to Sohu.com which would be taxed in the United States at 34 percent, the ability of Sohu.com to use its net operating losses, changes in statutory tax rates, the amount of tax exempt interest income generated during the year, the ability to utilize foreign tax credits and non-deductible items relating to acquisitions, or other non-recurring charges. We will continue to monitor the effective tax rate on a quarterly basis.

Net Income (Loss)

As a result of the foregoing, we had net income of $2.7 million and $14.8 million for the three and nine months ended September 30, 2003, as compared to net income of $112,000 and net loss of $3.0 million for the corresponding three and nine month periods in 2002.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations principally through sales of equity securities and convertible notes, and revenues from operations. As of September 30, 2003, we had cash, cash equivalents, and investments in marketable debt securities totalling approximately $161.6 million as compared to $44.2 million as of December 31, 2002.

We completed a private placement on July 14, 2003 of $90 million principal amount of zero coupon convertible senior notes due July 2023, which resulted in net proceeds to Sohu of approximately $87,350,000 after deduction of the initial purchaser's discount and our offering expenses. The notes do not pay any interest, have a zero yield to maturity, and are convertible into Sohu's common stock at a conversion price of $44.76 per share, subject to adjustment. Each $1,000 principal of the notes is initially convertible into 22.3414 shares of Sohu's common stock. Each holder of the notes will have the right, at the holder's option, to require Sohu to repurchase all or any portion of the principal amount of the holder's notes on July 14 in 2007, 2013 and 2018 at a price equal to 100% of the outstanding principal amount. Sohu may also redeem all or a portion of the notes for cash at any time on or after July 14, 2008 at 100% of the principal amount of the notes if the closing price of Sohu's common stock for each of the 30 consecutive trading days prior to such time was at least 130% of the conversion price or at such time at least 90% of the initial aggregate principal amount of the notes have been converted, repurchased or redeemed. In addition, upon a change of control event, each holder of the notes may require Sohu to repurchase some or all of its notes at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. We have filed a registration statement with the Securities and Exchange Commission to register for resale the notes and the common stock issuable upon conversion of the notes. However, until the registration statement becomes effective, the notes may be offered and sold only in transactions that are exempt from registration under the U.S. Securities Act of 1933 and the securities laws of any other applicable jurisdiction.

Pursuant to an agreement with a bank, we were extended a commercial line of credit of $15 million with our investments in marketable debt securities as collateral, to meet any of our short-term contingent cash needs. We have no amount outstanding under the credit facility as of September 30, 2003. We are not subject to any financial covenants under the credit facility.

Net cash provided by operating activities was $29.3 million for the nine months ended September 30, 2003, primarily due to our net income of $14.8 million for the period, tax benefits from stock options of $6.5 million, depreciation and amortization of $3.6 million, provision for loans to related parties and assets held for disposal of $554,000, and $3.9 million of a decrease in working capital. Net cash provided by operating activities was

$1.8 million for the nine months ended September 30, 2002, primarily due to our net loss of $3.0 million for the period, adjusted for depreciation and amortization of $3.7 million, provision for allowance for doubtful accounts of $798,000 and changes in working capital.

Net cash used in investing activities was $20.2 million for the nine months ended September 30, 2003, primarily due to long term investments in marketable debt securities of $19.1 million, purchase of fixed assets of $2.3 million and addition of other assets of $1.4 million, partially offset by $2.6 million in cash included in variable interest entities. Net cash used in investing activities was $8.3 million for the nine months ended September 30, 2002, and primarily due to investments of $2.8 million in marketable debt securities, purchase of fixed assets of $2.1 million and loans to related parties of $3.3 million for financing investments in High Century and Hengda.

Net cash provided by financing activities was $89.2 million for the nine months ended September 30, 2003, due to net proceeds of $87.8 million from the private placement of our zero coupon convertible senior notes and proceeds of $1.4 million from issuance of common stock pursuant to our stock incentive plan. There was no significant net cash provided by financing activities for the nine months ended September 30, 2002.

We believe that current cash and cash equivalents will be sufficient to meet the requirements of working capital (net cash used in operating activities), commitments and capital expenditures cash needs for at least the next twelve months. At this time, we do not expect to require additional cash resources. However, we may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

Chinese regulations limit our ability to convert renminbi into foreign currency for capital items and may restrict our ability to use cash generated in China for expenditures outside of China. The laws of the PRC do allow the payment of dividends from China based operating subsidiaries. We have not paid dividends in the past from China to our holding companies outside of China. If the renminbi were to decline in value, our revenues in US dollar terms would be reduced.

RISK FACTORS

Risks Related to Our Business

Except for each of the five quarters ended September 30, 2003, we have incurred net losses since inception and losses could continue in the future.

Except for each of the five quarters ended September 30, 2003, we have incurred significant net losses since our inception in August 1996. In addition, we had an accumulated deficit of approximately $58.4 million at September 30, 2003. We may incur substantial net losses in the future due to the relative high risk associated with our revenue and the high level of planned operating and capital expenditures, including sales and marketing costs, personnel hires, and product development. Although we have recorded a net income for each of the five consecutive quarters ended September 30, 2003, we may not sustain profitability.

We have a limited operating history, which may make it difficult for investors to evaluate our business.

We began offering products and services under the www.Sohu.com Web site in February 1998. Accordingly, we have a limited operating history upon which investors can evaluate our business. In addition, our senior management and employees have worked together at our company for only a relatively short period of time. As an early stage company in the new and rapidly evolving PRC Internet market, we face numerous risks and uncertainties. Some of these risks relate to our ability to:

- increase our online advertising revenues and successfully build our e-commerce and e-subscription services (including wireless services) businesses, given the early stage of development of the PRC Internet industry;
- continue to attract a larger audience to our portal by expanding the type and technical sophistication of the content and services we offer; and
- maintain our current, and develop new, strategic relationships to increase our revenue streams as well as product and service offerings.

PRC Internet laws and regulations are unclear and will likely change in the near future. If we are found to be in violation of current or future PRC laws or regulations, we could be subject to severe penalties.

We conduct our Internet operations solely in the PRC through our indirect wholly owned subsidiaries, Beijing ITC and Sohu Era and variable interest entities Sohu Internet and Beijing Sohu. Beijing ITC and Sohu Era are wholly foreign owned enterprises, or WFOEs, under PRC law. We are a Delaware corporation, Sohu Hong Kong, our indirect wholly owned subsidiary and the parent company of Beijing ITC and Sohu Era, is a Hong Kong corporation, and Sohu and Sohu Hong Kong are foreign persons under PRC law. Accordingly, our Internet business is 100% foreign-owned. In order to meet ownership requirements under PRC law which restrict or prohibit Sohu from operating in certain industries such as Internet content provider and Internet access, we have established Beijing Sohu, High Century, Hengda and Sohu Internet which are companies incorporated in the PRC and owned by Dr. Charles Zhang, our president and chief executive officer and a major Sohu shareholder, and certain other employees of Sohu. As of September 30, 2003, Sohu had invested $5.2 million in Beijing Sohu, High Century, Hengda and Sohu Internet through loans to officers and employees. In 2000, we extended loans of $242,000 to Dr. Charles Zhang and a Sohu employee to set up Beijing Sohu. Pursuant to a restructuring in May 2000, we transferred certain of our assets and operations to Beijing Sohu, a PRC company that is 80% owned by Dr. Charles Zhang. In 2001 and 2002, we made loans totaling $4.6 million to Dr. Charles Zhang and an employee of the company to establish High Century for the purposes of undertaking additional investments in the PRC where foreign ownership is prohibited or restricted. In 2002, we loaned $242,000 to an employee of the company for the purpose of funding an investment in Hengda, a company incorporated in the PRC which engages in Internet access services in the PRC on behalf of Sohu. The $242,000 investment represents a 20% interest in Hengda, with High Century holding the remaining 80% interest. In March 2002, High Century entered into a joint venture agreement with Guolian Securities Co., Ltd., pursuant to which High Century has invested $3.1 million in Sohu-Guolian in return for a 51% equity interest in and joint control of Sohu-Guolian. Sohu-Guolian was established to provide technical services to the PRC online securities trading and financial services industries. In September 2003, Sohu-Guolian commenced liquidation proceedings. In June 2003, we loaned $121,000 to an employee of the company for the purpose of funding an investment in Sohu Internet, a company incorporated in the PRC which engages in Internet information services in the PRC on behalf of Sohu. The $121,000 investment represents a 20% interest in Sohu Internet with High Century holding the remaining 80% interest. We do not have any direct ownership interest in Beijing Sohu, High Century, Hengda or Sohu Internet.

The PRC has recently begun to regulate its Internet sector by making pronouncements or enacting regulations regarding the legality of foreign investment in the PRC Internet sector and the existence and enforcement of content restrictions on the Internet. We believe that our current ownership structure complies with all existing PRC laws, rules and regulations. There are, however, substantial uncertainties regarding the interpretation of current PRC Internet laws and regulations. In addition, new PRC Internet laws and regulations were recently adopted. Accordingly, it is possible that the PRC government will ultimately take a view contrary to ours.

Issues, risks and uncertainties relating to PRC government regulation of the PRC Internet sector include the following:

- The PRC recently enacted regulations applying to Internet-related services and telecom-related activities. While many aspects of these regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information services. If these regulations are interpreted to be inconsistent with our restructuring, our business will be severely impaired.

- Under the agreement reached in November 1999 between the PRC and the United States concerning the United States' support of China's entry into the World Trade Organization, or WTO, foreign investment in PRC Internet services will be liberalized to allow for 30% foreign ownership in key telecommunication services, including PRC Internet ventures, for the first year after China's entry into the WTO, 49% in the second year and 50% thereafter. China officially entered the WTO on December 11, 2001. However, the implementation of China's WTO accession agreements is still subject to various conditions.

- The Ministry of Information Industry, or MII, has also stated that the activities of Internet content providers are subject to regulation by various PRC government authorities, depending on the specific activities conducted by the Internet content provider. Various government authorities have stated publicly that they are in the process of preparing new laws and regulations that will govern these activities. The areas of regulation currently include online advertising, online news reporting, online publishing, online securities trading and the provision of industry-specific (e.g., drug-related) information over the Internet. Other aspects of our online operations may be subject to regulation in the future.

The interpretation and application of existing PRC laws and regulations, the stated positions of the MII and the possible new laws or regulations have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, PRC Internet companies, including us.

Accordingly, it is possible that the relevant PRC authorities could, at any time, assert that any portion or all of our, Beijing ITC's, Sohu Era's, Beijing Sohu's, Hengda's, High Century's or Sohu Internet's existing or future ownership structure and businesses violate existing or future PRC laws, regulations or policies. It is also possible that the new laws or regulations governing the PRC Internet sector that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our, Beijing ITC's, Sohu Era's, Beijing Sohu's, Hengda's, High Century's and Sohu Internet's current or proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied to us, Beijing ITC, Sohu Era, High Century, Hengda, Beijing Sohu or Sohu Internet.

If we, Beijing ITC, Sohu Era, High Century, Beijing Sohu, Hengda or Sohu Internet were found to be in violation of any existing or future PRC laws or regulations, the relevant PRC authorities would have broad discretion in dealing with such violation, including, without limitation, the following:

- levying fines;

- confiscating our, Beijing ITC's, Sohu Era's, High Century's, Hengda's, Beijing Sohu's or Sohu Internet's income;

- revoking our, Beijing ITC's, Sohu Era's, High Century's, Hengda's, Beijing Sohu's or Sohu Internet's business license;

- shutting down our, Beijing ITC's, Sohu Era's, Beijing Sohu's or Sohu Internet's servers and/or blocking our Web sites;
- requiring us, Beijing ITC, Sohu Era, High Century, Hengda, Beijing Sohu or Sohu Internet to restructure its ownership structure or operations; and
- requiring us, Beijing ITC, Sohu Era, High Century, Hengda, Beijing Sohu or Sohu Internet to discontinue any portion or all of its Internet business.

We may be unable to collect long-term loans to officers and employees or exercise management influence associated with Beijing Sohu, High Century, Hengda or Sohu Internet.

At September 30, 2003 Sohu had provided long-term loans of $5.2 million to Dr. Charles Zhang, Sohu's president and chief executive officer and a major Sohu shareholder, and certain of our employees. The long-term loans are used to finance investments in Beijing Sohu and High Century, which are owned 80% by Dr. Charles Zhang and 20% by certain of our employees, Hengda, which is owned 80% by High Century and 20% by an employee, and Sohu Internet, which is owned 80% by High Century and 20% by an employee. Beijing Sohu, High Century, Hengda and Sohu Internet are used to facilitate our participation in telecommunications, Internet content and certain other businesses in China where foreign ownership is either prohibited or restricted.

The agreements contain provisions that, subject to PRC law, (i) the loans can only be repaid to us by transferring the shares of High Century, Hengda, Sohu Internet or Beijing Sohu to us, (ii) the shares of High Century, Hengda, Sohu Internet or Beijing Sohu cannot be transferred without our approval, and (iii) we have the right to appoint all directors and senior management personnel of High Century, Hengda, Sohu Internet and Beijing Sohu. Dr. Charles Zhang and the other employee borrowers have pledged all of their shares in High Century, Hengda, Sohu Internet and Beijing Sohu as collateral for the loans and the loans bear no interest and are due on demand after November 2003, in the case of High Century, the earlier of a demand or 2010, in the case of Beijing Sohu, after January 2003, in the case of Hengda, and after June 2004, in the case of Sohu Internet, or, in any case, at such time as Dr. Charles Zhang or the other employee borrowers, as the case may be, is not an employee of Sohu. Sohu does not intend to request repayment of the loans as long as PRC regulations prohibit it from directly investing in businesses being undertaken by High Century, Hengda, Sohu Internet and Beijing Sohu.

Because these loans can only be repaid by the borrowers' transferring the shares of the various entities, our ability to ultimately realize the effective return of the amounts advanced under these loans will depend on the profitability of Beijing Sohu, Hengda, Sohu Internet and High Century, which is uncertain. Furthermore, because of uncertainty associated with PRC law, ultimate enforcement of the loan agreements is uncertain. Accordingly, we may never be able to collect these loans or exercise influence over High Century, Hengda Sohu Internet and Beijing Sohu.

We have attempted to comply with restrictions on foreign investment in the PRC Internet sector imposed by the PRC government by transferring our content-related assets and operations to, and entering into agreements with, Beijing Sohu and Sohu Internet, PRC companies owned by our President and Chief Executive Officer. If the PRC government finds that these agreements do not comply with the relevant foreign investment restrictions, our business in the PRC will be adversely affected.

Because the PRC government restricts foreign investment in Internet-related businesses, we have restructured our Internet operations by having Beijing Sohu and Sohu Internet acquire appropriate government approvals to conduct our content-related operations. In addition, we have transferred our content-related assets and operations to Beijing Sohu and Sohu Internet. The legal uncertainties associated with PRC government regulations and our restructuring may be summarized as follows:

- whether the PRC government may view our restructuring as being in compliance with its laws and regulations;
- whether the PRC government may impose additional regulatory requirements with which we, Beijing Sohu or Sohu Internet may not be in compliance; and
- whether the PRC government will permit Beijing Sohu or Sohu Internet to acquire future licenses necessary in order to conduct operations in the PRC.

We cannot be sure that our restructured operations and activities will be viewed by PRC regulatory authorities as in compliance with applicable PRC laws and regulations. Our business will be adversely affected if our business license is revoked as a result of non-compliance. In addition, we cannot be sure that we, Beijing Sohu and Sohu Internet will be able to obtain all of the licenses we, Beijing Sohu or Sohu Internet may need in the future. Future changes in PRC government policies affecting the provision of information services, including the provision of online services and Internet access, may impose additional regulatory requirements on us, Beijing Sohu or Sohu Internet or our service providers or otherwise harm our business.

We depend upon contractual arrangements with Beijing Sohu, Hengda, High Century and Sohu Internet for the success of our business and these arrangements may not be as effective in providing operational control as direct ownership of these businesses and may be difficult to enforce.

Because we conduct our Internet operations only in the PRC, and because we are restricted or prohibited by the PRC government from owning Internet content, financial services or telecommunication operations in the PRC, we are dependent on Beijing Sohu, Hengda, High Century and Sohu Internet in which we have no direct ownership interest, to provide those services through contractual agreements between the parties. These arrangements may not be as effective in providing control over our Internet content, financial services or telecommunications operations as direct ownership of these businesses. For example, Beijing Sohu and Sohu Internet could fail to take actions required for our business, such as entering into content development contracts with potential content suppliers or failing to maintain the necessary permit for the content servers. If Beijing Sohu, Hengda, High Century and Sohu Internet fail to perform its obligations under these agreements, we may have to rely on legal remedies under PRC law, which we cannot assure you would be effective or sufficient.

Dr. Charles Zhang, our president and chief executive officer and a major shareholder of our company, is also the majority shareholder of Beijing Sohu, Hengda, High Century and Sohu Internet. As a result, our contractual relationships with those companies could be viewed as entrenching his management position or transferring certain value to him, especially if any conflict arises with him.

Even if we are in compliance with PRC governmental regulations relating to licensing and foreign investment prohibitions, the PRC government may prevent us from distributing, and we may be subject to liability for, content that it believes is inappropriate.

The PRC has enacted regulations governing Internet access and the distribution of news and other information. In the past, the PRC government has stopped the distribution of information over the Internet that it believes to violate PRC law, including content that is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may not publish certain news items, such as news relating to national security, without permission from the PRC government. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any Web site maintained outside the PRC at its sole discretion. Even if we comply with PRC governmental regulations relating to licensing and foreign investment prohibitions, if the PRC government were to take any action to limit or prohibit the distribution of information through our network or to limit or regulate any current or future content or services available to users on our network, our business would be harmed.

We are also subject to potential liability for content on our Web sites that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems under regulations promulgated by the MII.

Furthermore, we are required to delete content that clearly violates the laws of the PRC and report content that we suspect may violate PRC law. It is difficult to determine the type of content that may result in liability for us, and if we are wrong, we may be prevented from operating our Web sites.

We rely on e-subscription services for a significant portion of our revenues. If our contracts with mobile network operators were to be terminated, altered or not renewed, or if such operators did not provide continuous or adequate service, our revenues could be reduced significantly.

We derive a significant portion of our revenues from e-subscription services on our Web sites. For the three and nine months ended September 30, 2003, e-subscription revenues represented approximately 57% and 59%, respectively, of our total revenues, as compared to 34% and 29% for the corresponding three and nine month periods in 2002. For the three and nine months ended September 30, 2003, wireless services accounted for 93% and 95%, respectively, of our total e-subscription revenues, We expect our reliance on the portion of wireless e-subscription revenues to increase. Our business plan is dependent upon further increases in revenues from wireless services and the expansion of our subscriber base.

E-subscription revenue in 2003 is derived principally from providing value added wireless services such as alumni club, dating and friends matching, e-mail, ringtone and logo downloads and various other related products to mobile phone users. Wireless fees are charged on a monthly or per message basis. Pursuant to contractual arrangements between Beijing Sohu or Sohu Internet and a number of mobile network operators in

China which are subsidiaries of China Mobile Communication Corporation, or CMCC, and China Unicom Co., Ltd, or Unicom, Sohu relies on the operators for both billing of, and collection from, mobile phone users of e-subscription fees. The service fees range from approximately 10% to 50% of our e-subscription revenues, and are based on contracted rates that are subject to review and renewal on an annual basis. Generally, (i) within 15 to 90 days after the end of each month, Beijing Sohu or Sohu Internet receives a statement from CMCC and Unicom confirming the amount of e-subscription charges billed to that operator's mobile phone users and (ii) within 30 to 120 days after delivering a monthly statement to Beijing Sohu or Sohu Internet, each operator remits the e-subscription fees, net of its service fees, for the month to Beijing Sohu or Sohu Internet which then transfers the funds to Beijing ITC or Sohu Era, in order to allow the revenues to be included within our consolidated accounts.

With respect to our wireless services, we depend on the cooperation of CMCC and Unicom. We rely on CMCC and Unicom in the following ways:

- we provide wireless services through CMCC's and Unicom's network and gateway;
- we utilize and rely on CMCC and Unicom's billing systems to charge our subscribers through the subscriber's mobile phone bill;
- we rely on their collection proxy services to collect payments from subscribers; and
- we rely on their infrastructure to further develop our subscription services.

We face significant risks in the area of e-subscription services, such as the following, which could adversely affect our e-subscription services and revenues:

- E-subscription services are provided through our Web site and recorded in our internal systems. However, in order to recognize revenue and get paid for services provided, we rely on billing confirmations from CMCC and Unicom as to the actual amount of services they have billed to their mobile customers. We do not collect e-subscription fees from an operator in certain circumstances due to technical issues with the operator's network. We refer to these failures as an operator's "failure rate," which can vary from operator to operator. An operator's failure rate can vary from month to month, ranging from 5% to 80% and may change at any time without notice. If an operator encounters technical problems, increases in the failure rate for that operator could occur. CMCC Beijing and other operators are currently in the process of establishing a new billing platform and may require us to switch to this platform in the future. The new platform may result in higher failure rates. Changes in failure rates may result in significant reductions or fluctuations in our e-subscription revenues.
- The service fees we pay for using an operator's infrastructure are set based on the negotiation of annual contracts. Our contract with Unicom expires in March 2004. Our contracts with CMCC expire at various times from November 2003 to May 2004. Our negotiating power is limited and if an operator increases its service fees, or does not comply with the terms of our contract, our revenue, gross margin and profitability could be materially reduced.
- We rely on the operators to pay us the e-subscriptions fees which they have billed to their mobile customers. If an operator refuses to pay us or limits the amount of e-subscriptions fees which can be billed in a month, our revenues could be adversely affected.
- An operator could launch competing services at any time.
- The refusal of an operator to allow us to supply certain services or its refusal to allow us to charge our desired prices for our services could disrupt our e-subscription services.
- If CMCC or Unicom were unwilling to cooperate with us, we would not be able to find substitute partners.
- Pursuant to the regulations of CMCC and Unicom, Sohu has the right to charge consumers who have registered to be billed on a monthly basis even if they do not use our services in any month or on a regular basis. If CMCC and Unicom were to disallow us from billing consumers who do not actively use our services, our e-subscriptions revenue, generally, and our GGMM revenue, specifically, would be materially impacted.

- Our consumers may not understand our services or the fees they are being charged, may not be satisfied with our services and/or may not use our services on a regular basis, each of which could result in decreases or fluctuations in our revenue.

- Also, consumers may cancel their services at any time without notice, which could result in significant reductions and fluctuations in our revenue.

- CMCC or Unicom may change their operating regulations at any time, which could result in our being fined or having our services discontinued without notice. Changes in these operating regulations could also have a material impact on our revenue. For example, in April 2003, CMCC announced or clarified regulations which prohibit utilizing its billing gateway for services which are not directly related to the mobile phone and prohibit billing for services which have not been used by a subscriber for more than three months. These two regulation changes did not have a material impact on our revenues but are examples of how policies could change as the industry is in an early stage of development. In July 2003, CMCC disallowed us from using third party Web sites which do not have Internet content provider licenses, or website union, to promote our e-subscriptions products. Over 50% of our e-subscriptions growth during the nine months ended June 30, 2003 was derived from products acquired through website union. Approximately 25% of our total wireless revenues for the three and nine months ended September 30, 2003 were from our online dating and friends matching service "Jiqinggongshe" or "GGMM" product, and 20% of our wireless revenues for the same periods were from other products, whose subscribers were acquired through website union. As a result of our inability to use website union to promote our products or acquire subscribers, we experienced substantially lower growth in e-subscriptions revenue for the three months ended September 30, 2003 as compared to the three months ended June 30, 2003, March 31, 2003 and December 31, 2002. Because our use of website union is restricted, we expect our subscriber base for products previously promoted through website union to continue to decline.

- Currently over eighty percent of our e-subscriptions revenue is from consumers who subscribe for individual services for which we charge a monthly fee ranging from approximately $0.60 to $4.00. Over the past nine months, the largest contributor to our e-subscriptions growth and total e-subscriptions revenue has been our GGMM online dating and friends matching service, that accounts for approximately 25 percent of wireless revenue during the past nine months. Future growth and sustainability of our e-subscription revenues is dependent upon user acceptance of our existing and new services, especially services such as GGMM which are paid by way of monthly subscriptions. Because these services are new and untested, we do not have a clear understanding of consumer behavior, making it difficult to predict future growth or usage.

- We face intense competition from a number of companies who may launch competing or better products than us at any time. In addition, there are limited barriers to entry in this area.

We also face the risk that changes in government policy could restrict or curtail the services which we provide.

We depend on online advertising for a significant portion of our revenues. There are a number of risks in this area, any of which could adversely affect our advertising revenues.

We derive a significant portion of our revenues from the sale of advertising on our Web sites. For the three and nine months ended September 30, 2003, advertising revenues represented approximately 40% and 36%, respectively, of our total revenues, as compared to 49% and 53% for the corresponding three and nine month periods in 2002. For each of the three and nine months ended September 30, 2003, our five largest advertisers accounted for approximately 11% of our total advertising revenues. In fiscal 2002, our five largest advertisers accounted for approximately 14% of total advertising revenues.

The online advertising market in China is new and relatively small. Our ability to generate and maintain significant online advertising revenues in China will depend, among other things, on:

- the development of a large base of users possessing demographic characteristics attractive to advertisers;

- downward pressure on online advertising prices;

- acceptance by advertisers that online advertising is effective;
- the development of independent and reliable means of verifying traffic; and
- the effectiveness of our advertising delivery, tracking and reporting systems.

The development of Web software that blocks Internet advertisements before they appear on a user's screen may hinder the growth of online advertising. The expansion of ad blocking on the Internet may decrease our revenues because when an ad is blocked, it is not downloaded from our ad server. As a result, such advertisements will not be tracked as a delivered advertisement. In addition, advertisers may choose not to advertise on the Internet or on our portal because of the use by third parties of Internet advertisement blocking software.

Accordingly, we may not be successful in generating significant future online advertising revenues.

Our e-commerce services may face certain business and regulatory risks, any of which could adversely affect our e-commence revenues.

For the three and nine months ended September 30, 2003, e-commerce revenues represented approximately 3% and 5%, respectively, of our total revenues, as compared to 16% and 17% for the corresponding three and nine month periods in 2002.

Substantially all e-commerce revenues are earned from the sale of consumer products. Our business plan is dependent upon further increases in revenues from e-commerce.

We face the following risks with respect to our e-commerce business line:

- the online shopping market is small and unproven in China and, therefore, we may not be able to sustain revenue growth or maintain existing revenue levels;
- we may not be able to maintain our existing gross margins because of competitors such as Joyo, Bertelsmann Online and Dang Dang;
- credit cards are not widely used in China and, therefore, we rely on cash on delivery for collecting payments whereby we have a collection risk from the companies providing delivery service; and
- future government regulations could restrict us from further expanding or continuing this business.

Our operating results are likely to fluctuate significantly and may differ from market expectations.

Our annual and quarterly operating results have varied significantly in the past, and may vary significantly in the future due to a number of factors such as our reliance on mobile operators for our e-subscriptions revenue, the fact that the Chinese internet industry is in an early stage of development and we are unsure if it will continue to grow or at what rate it will grow, and the fact that we are subject to government regulations that may change at any time or without notice which could impact our business. As a result, we believe that year-to-year and quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. In addition, we have experienced very high growth rates in the past twelve months and there may be expectations that these growth rates will continue. It is likely that in some future quarter, our operating results may be below the expectations of public market analysts and investors. In this event, the trading price of our common stock may fall.

We will not be able to attract visitors, advertisers, paying subscribers, wireless and e-commerce customers if we do not maintain and develop the Sohu brand.

Maintaining and further developing our brand is critical to our ability to expand our user base and our revenues. We believe that the importance of brand recognition will increase as the number of Internet users in China grows. In order to attract and retain Internet users, advertisers, subscribers, and wireless and e-commerce customers, we may need to substantially increase our expenditures for creating and maintaining brand loyalty. If our revenues do not increase proportionately, our results of operations and liquidity will suffer.

Our success in promoting and enhancing our brand, as well as our ability to remain competitive, will also depend on our success in offering high quality content, features and functionality. If we fail to promote our brand successfully or if visitors to our portal or advertisers do not perceive our content and services to be of high quality, we may not be able to continue growing our business and attracting visitors, advertisers, and wireless and e-commerce customers.

We may need additional capital and we may not be able to obtain it.

Our capital requirements are difficult to plan in our rapidly changing industry. We may need additional capital for such initiatives as the launch of new products or the acquisition of complementary assets, technologies or businesses we may pursue.

Our ability to obtain additional financing in the future is subject to a variety of uncertainties, including:

- investors' perceptions of and appetite for Internet-related securities;
- conditions in the U.S. and other capital markets in which we may seek to raise financing;
- our future results of operations, financial condition and cash flows;
- the amount of capital that other PRC entities may seek to raise in foreign capital markets;
- PRC governmental regulation of foreign investment in Internet companies;
- economic, political and other conditions in the PRC;
- PRC governmental policies relating to foreign currency borrowings; and
- any new laws and regulations that may require various PRC government approvals for securities offerings by companies engaged in the Internet sector in the PRC.

Our inability to raise additional funds on favorable terms, or at all, could force us to scale back our planned expenditures, which could adversely affect our growth prospects.

If we fail to establish and maintain relationships with content and technology providers and mobile network operators, we may not be able to attract and retain users.

We rely on a number of third party relationships to attract traffic and provide content in order to make our portal more attractive to users and advertisers. Some content providers have increased the fees they charge us for their content. This trend could increase our operating expenses and could adversely affect our ability to obtain content at an economically acceptable cost. Most of our arrangements with content providers are short-term and may be terminated at the convenience of the other party. In addition, much of the third party content provided to our portal is also available from other sources or may be provided to other Internet companies. If other Internet companies present the same or similar content in a superior manner, it would adversely affect our visitor traffic.

Substantially all of our e-subscription revenue is generated through wireless services where we depend on mobile network operators for message delivery and payment collection. If we were unable to continue this arrangement, our wireless services would be severely disrupted.

Our business also depends significantly on relationships with leading technology and infrastructure providers and the licenses that the technology providers have granted to us. Our competitors may seek to establish the same relationships as we have, which may adversely affect us. We may not be able to maintain these relationships or replace them on commercially attractive terms.

We depend on key personnel and our business may be severely disrupted if we lose the services of our key executives and employees.

Our future success is heavily dependent upon the continued service of our key executives, particularly Dr. Charles Zhang, who is the founder, president, chief executive officer and a major shareholder of our company and the founder and president of Beijing Sohu, High Century, and Hengda. We rely on his expertise in our business operations and on his personal relationships with some of our principal shareholders, the relevant regulatory authorities, our customers and suppliers, Beijing Sohu, High Century, and Hengda. If one or more of our key executives and employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them and our business may be severely disrupted. In addition, if any of these key executives or employees joins a competitor or forms a competing company, we may lose customers and suppliers and incur additional expenses to recruit and train personnel. Each of our executive officers has entered into an employment agreement and a confidentiality, non-competition and non-solicitation agreement with us. However, the degree of protection afforded to an employer pursuant to confidentiality and non-competition undertakings governed by PRC law may be more limited when compared to the degree of protection afforded under the laws of other jurisdictions. We do not maintain key-man life insurance for any of our key executives.

We also rely on a number of key technology staff for the operation of Sohu. Given the competitive nature of the industry, the risk of key technology staff leaving Sohu is high and could have a disruptive impact on our operations.

Rapid growth and a rapidly changing operating environment strain our limited resources.

We have limited operational, administrative and financial resources, which may be inadequate to sustain the growth we want to achieve. As our audience and their Internet use increase, as the demands of our audience and the needs of our customers change and as the volume of online advertising, wireless and e-commerce activities increases, we will need to increase our investment in our network infrastructure, facilities and other areas of operations. If we are unable to manage our growth and expansion effectively, the quality of our services could deteriorate and our business may suffer. Our future success will depend on, among other things, our ability to:

- adapt our services and maintain and improve the quality of our services;
- protect our Web site from hackers and unauthorized access;
- continue training, motivating and retaining our existing employees and attract and integrate new employees; and
- develop and improve our operational, financial, accounting and other internal systems and controls.

We may not be able to track the delivery of advertisements through our portal, which may make us less attractive to potential advertisers.

It is important to advertisers that we accurately measure the demographics of our user base and the delivery of advertisements through our portal. Companies may choose not to advertise on our portal or may pay less for advertising if they do not perceive our portal to be reliable. We depend on third parties to provide us with some of these measurement services. If they are unable to provide these services in the future, we would need to perform these services ourselves or obtain these services from other providers. This could cause us to incur additional costs or cause interruptions or slowdowns in our business during the time we are replacing these services. We are currently implementing additional systems designed to collect information on our users. We may not be able to implement these systems successfully.

Our strategy of acquiring complementary assets, technologies and businesses may fail and may result in equity or earnings dilution.

As a component of our growth strategy, we have acquired and intend to actively identify and acquire assets, technologies and businesses that are complementary to our existing portal business. Our acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill and other intangible assets and exposure to undisclosed or potential liabilities of acquired companies. Moreover, the resources expended in identifying and consummating acquisitions may be significant. Furthermore, any acquisitions we decide to pursue may be subject to the approval of the relevant PRC governmental authorities, as well as any applicable PRC rules and regulations.

We may rely on dividends and other distributions on equity paid by Sohu.com Limited, our wholly-owned subsidiary, to fund any cash requirements we may have. We may not be able to obtain cash from distributions to the extent such distributions are restricted by PRC law or future debt covenants.

We are a holding company with no operating assets other than investments in Chinese operating entities including Beijing ITC, Sohu Era, and Sohu Software through an intermediate holding company, Sohu.com Limited, our wholly-owned subsidiary in the Cayman Islands, and our variable interest entities, Beijing Sohu, High Century, Hengda and Sohu Internet. We may rely on dividends and other distributions on equity paid by Sohu.com Limited for our cash requirements in excess of any cash raised from investors and retained by us. If Beijing ITC, Sohu Era, and Sohu Software incur debt on their own behalf in the future, the instruments governing the debt may restrict Beijing ITC's, Sohu Era's and Sohu Software's ability to pay dividends or make other distributions to us. In addition, PRC legal restrictions permit payment of dividends by Beijing ITC, Sohu Era, and Sohu Software only out of their net income, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law, Beijing ITC, Sohu Era and Sohu Software are also required to set aside 10% of their net income each year to fund certain reserve funds until these reserves equal 50% of the amount of paid-in capital. These reserves are not distributable as cash dividends. We do not expect any dividends or other distributions on equity from Sohu.com Limited in the foreseeable future.

We may not have exclusive rights over the mark "Sohu.com" in certain areas.

We have applied for registration of the "Sohu.com" mark in Hong Kong and Taiwan, and plan to apply for registration in Malaysia and Singapore. Completion of these applications is subject to prior rights in the relevant jurisdictions. Any rejection of those applications may adversely affect our legal rights over the mark "Sohu.com" in those countries and regions.

Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

We regard our copyrights, service marks, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of our intellectual property by third parties may adversely affect our business and reputation. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without authorization. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries is uncertain and still evolving. In particular, the laws of the PRC and certain other countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Future litigation could result in substantial costs and diversion of resources.

We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely against us, materially disrupt our business.

We cannot be certain that our products and services do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We have in the past been, are currently, and may in the future be, subject to claims and legal proceedings relating to the intellectual property of others in the ordinary course of our business. In particular, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, may be ordered to pay a fine and we may incur licensing fees or be forced to develop alternatives. We may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability or may materially disrupt the conduct of our business by restricting or prohibiting our use of the intellectual property in question.

We may be subject to, and may expend significant resources in defending against, claims based on the content and services we provide over our portal.

As our services may be used to download and distribute information to others, there is a risk that claims may be made against us for defamation, negligence, copyright or trademark infringement or other claims based on the nature and content of such information. Furthermore, we could be subject to claims for the online activities of our visitors and incur significant costs in their defense. In the past, claims based on the nature and content of information that was posted online by visitors have been made in the United States against companies that provide online services. We do not carry any liability insurance against such risks.

We could be exposed to liability for the selection of listings that may be accessible through our portal or through content and materials that our visitors may post in classifieds, message boards, chat rooms or other interactive services. If any information provided through our services contains errors, third parties may make claims against us for losses incurred in reliance on the information. We also offer Web-based e-mail and subscription services, which expose us to potential liabilities or claims resulting from:

- unsolicited e-mail;
- lost or misdirected messages;
- illegal or fraudulent use of e-mail; or
- interruptions or delays in e-mail service.

Investigating and defending any such claims may be expensive, even if they do not result in liability.

Risks Related to Our Markets

We will rely on online advertising sales for a significant portion of our future revenues, but the online advertising market is new and rapidly evolving, particularly in China, and the Internet has not been proven as a widely accepted medium for advertising.

We expect to derive a significant portion of our revenue for the foreseeable future from online advertising. If the Internet is not accepted as a medium for advertising, our ability to generate revenues will be adversely affected.

The online advertising market is new and rapidly evolving, particularly in China. As a result, many of our current and potential advertising clients have limited experience using the Internet for advertising purposes and historically have not devoted a significant portion of their advertising budget to Internet-based advertising. Moreover, advertising clients that have invested substantial resources in other methods of conducting business may be reluctant to adopt a new strategy that may limit or compete with their existing efforts. In addition, companies may choose not to advertise on our portal if they do not perceive our online advertising platform to be effective or our audience demographics to be desirable. The failure to successfully address these risks or execute our business strategy would significantly reduce our profitability.

The acceptance of the Internet as a medium for advertising depends on the development of a measurement standard. No standards have been widely accepted for the measurement of the effectiveness of online advertising. Industry-wide standards may not develop sufficiently to support the Internet as an effective advertising medium. If these standards do not develop, advertisers may choose not to advertise on the Internet in general or through our portals or search engines.

Many of our current and potential e-subscription customers have only limited experience using the Internet for subscription purposes, and may not be willing to fully embrace the products and services we offer, which would adversely affect our future revenues and business expansion.

The e-subscription market is also new and rapidly evolving in China. Many of our current and potential e-subscription customers have limited experience using the Internet for subscription services. Our e-subscription revenue growth depends upon user acceptance of our existing and new services, especially services that are paid by way of monthly subscriptions such as our wireless dating, email, news, sports and jokes content, alumni club and other products where users can receive services on a daily basis. Because these services are new and untested, we do not have a clear understanding of consumer behavior, making it difficult to predict future growth or usage. Customers may not be willing to fully embrace the products and services we offer, which would adversely affect our future revenues and business expansion.

We face intense competition which could reduce our market share and adversely affect our financial performance.

The PRC Internet market is characterized by an increasing number of entrants because, among other reasons, the barriers to entry are relatively low. The market for Internet services and products, particularly Internet search and retrieval services, wireless and e-commerce services and online advertising, is intensely competitive. In addition, the Internet industry is relatively new and constantly evolving and, as a result, our competitors may better position themselves to compete in this market as it matures.

There are many companies that provide or may provide Web sites and online destinations targeted at Internet users in China. Some of our major competitors in China are major United States Internet companies, such as Yahoo! Inc and Nasdaq listed companies Sina Corporation and Netease. In addition, we may face competition from existing or new domestic PRC Internet companies that are either affiliated with large corporations such as Legend Computer, America Online and Softbank Corporation, or controlled or sponsored by PRC government entities. These competitors may have certain advantages over us, including:

- substantially greater financial and technical resources;
- more extensive and well developed marketing and sales networks;
- better access to original content;
- greater global brand recognition among consumers; and
- larger customer bases.

With these advantages, our competitors may be better able to:

- develop, market and sell their products and services;
- adapt more quickly to new and changing technologies; and
- more easily obtain new customers.

We may not be able to compete successfully against our current or future competitors.

The telecommunications infrastructure in China, which is not as well developed as in the United States, may limit our growth.

The telecommunications infrastructure in China is not well developed. Our growth will depend on the PRC government and state-owned enterprises establishing and maintaining a reliable Internet and telecommunications infrastructure to reach a broader base of Internet users in China. The Internet infrastructure, standards, protocols and complementary products, services and facilities necessary to support the demands associated with continued growth may not be developed on a timely basis or at all by the PRC government and state-owned enterprises.

We depend on ChinaNet, China Netcom, China Telecom and the Beijing Telecom Administration for telecommunications services, and any interruption in these services may result in severe disruptions to our business.

Although private Internet service providers exist in China, almost all access to the Internet is maintained through ChinaNet, currently owned by China Netcom and China Telecom, under the administrative control and regulatory supervision of the MII. In addition, local networks connect to the Internet through a government-owned international gateway. This international gateway is the only channel through which a domestic Chinese user can connect to the international Internet network. We rely on this infrastructure and China Netcom 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, we will have no access to alternative networks and services, on a timely basis if at all, in the event of any infrastructure disruption or failure.

We may not be able to lease additional bandwidth from the Beijing Telecom Administration on acceptable terms, on a timely basis or at all. In addition, we will have no means of getting access to alternative networks and services on a timely basis, if at all, in the event of any disruption or failure of the network.

The high cost of Internet access may limit the growth of the Internet in China and impede our growth.

Access to the Internet in China remains relatively expensive, and may make it less likely for users to access and transact business over the Internet. Unfavorable rate developments could further decrease our visitor traffic and our ability to derive revenues from transactions over the Internet.

The acceptance of the Internet as a commerce platform in China depends on the resolution of problems relating to fulfillment and electronic payment.

Our future growth of revenues depends in part on the anticipated expansion of e-commerce activities in China. As China currently does not have a reliable nationwide product distribution network, the fulfillment of goods purchased over the Internet will continue to be a factor constraining the growth of e-commerce. An additional barrier to the development of e-commerce in China is the lack of reliable payment systems. In particular, the use of credit cards or other viable means of electronic payment in sales transactions is not as well developed in China as in some other countries, such as the United States. Various government entities and businesses are working to resolve these fulfillment and payment problems, but these problems are expected to continue to hinder the acceptance and growth of the Internet as a commerce platform in China, which could in turn hinder our growth.

Risks Related to the Internet and Our Technology Infrastructure

To the extent we are unable to scale our systems to meet the increasing PRC Internet population, we will be unable to expand our user base and increase our attractiveness to advertisers and merchants.

As Web page volume and traffic increase in China, we may not be able to scale our systems proportionately. To the extent we do not successfully address our capacity constraints, our operations may be severely disrupted, and we may not be able to expand our user base and increase our attractiveness to advertisers and merchants.

Unexpected network interruptions caused by system failures may result in reduced visitor traffic, reduced revenue and harm to our reputation.

Our portal operations are dependent upon Web browsers, Internet service providers, content providers and other Web site operators in China, which have experienced significant system failures and system outages in the past. Our users have in the past experienced difficulties due to system failures unrelated to our systems and services. Any system failure or inadequacy that causes interruptions in the availability of our services, or increases the response time of our services, as a result of increased traffic or otherwise, could reduce our user satisfaction, future traffic and our attractiveness to users and advertisers.

Our operations are vulnerable to natural disasters and other events, as we only have limited backup systems and do not maintain any backup servers outside of China.

We have limited backup systems and have experienced system failures and electrical outages from time to time in the past, which have disrupted our operations. All of our servers and routers are currently hosted in a single location within the premises of Beijing Telecom Administration. We do not maintain any back up servers outside Beijing. We do not have a disaster recovery plan in the event of damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins and similar events. If any of the foregoing occurs, we may experience a complete system shutdown. We do not carry any business interruption insurance. To improve the performance and to prevent disruption of our services, we may have to make substantial investments to deploy additional servers or one or more copies of our Web sites to mirror our online resources. Although we carry property insurance with low coverage limits, our coverage may not be adequate to compensate us for all losses, particularly with respect to loss of business and reputation, that may occur.

Concerns about security of e-commerce transactions and confidentiality of information on the Internet may increase our costs, reduce the use of our portal and impede our growth.

A significant barrier to e-commerce and confidential communications over the Internet has been the need for security. Internet usage could decline if any well-publicized compromise of security occurred. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches. If unauthorized persons are able to penetrate our network security, they could misappropriate proprietary information or cause interruptions in our services. As a result, we may be required to expend capital and resources to protect against or to alleviate these problems.

Our network operations may be vulnerable to hacking, viruses and other disruptions, which may make our products and services less attractive and reliable.

Internet usage could 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. Hackers, if successful, could misappropriate proprietary information or cause disruptions in our service. We may be required to expend capital and other resources to protect our Web site against hackers. We cannot assure you that any measures we may take will be effective. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability, as well as materially damage our reputation and decrease our user traffic.

Political, Economic and Regulatory Risks

Regulation and censorship of information distribution in China may adversely affect our business.

China has enacted regulations governing Internet access and the distribution of news and other information. Furthermore, the Propaganda Department of the Chinese Communist Party has been given the responsibility to censor news published in China to ensure, supervise and control a particular political ideology. In addition, the MII has published implementing regulations that subject online information providers to potential liability for content included on their portals and the actions of subscribers and others using their systems, including liability for violation of PRC laws prohibiting the distribution of content deemed to be socially destabilizing. Because many PRC laws, regulations and legal requirements with regard to the Internet are relatively new and untested, their interpretation and enforcement may involve significant uncertainty. In addition, the PRC legal system is a civil law system in which decided legal cases have limited binding force as legal precedents. As a result, in many cases it is difficult to determine the type of content that may result in liability for a Web site operator.

Periodically, the Ministry of Public Security has stopped the distribution over the Internet of information which it believes to be socially destabilizing. The Ministry of Public Security has the authority to cause any local Internet service provider to block any Web site maintained outside China at its sole discretion. If the PRC government were to take action to limit or eliminate the distribution of information through our portal or to limit or regulate current or future applications available to users of our portal, our business would be affected.

The State Secrecy Bureau, which is directly responsible for the protection of state secrets of all PRC government and Chinese Communist Party organizations, is authorized to block any Web site it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information. Under the applicable regulations, we may be held liable for any content transmitted on our portal. Furthermore, where the transmitted content clearly violates the laws of the PRC, we will be required to delete it. Moreover, where the transmitted content is considered suspicious, we are required to report such content. We must also undergo computer security inspections, and if we fail to implement the relevant safeguards against security breaches, we may be shut down. In addition, under recently adopted regulations, Internet companies which provide bulletin board systems, chat rooms or similar services, such as our company, must apply for the approval of the State Secrecy Bureau. As the implementing rules of these new regulations have not been issued, however, we do not know how or when we will be expected to comply, or how our business will be affected by the application of these regulations.

Political and economic policies of the PRC government could affect our business.

All of our business, assets and operations are located in China and all of our revenues are derived from our operations in China. Accordingly, our business could be adversely affected by changes in political, economic or social conditions in China, adjustments in PRC government policies or changes in laws and regulations.

The economy of China differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development in a number of respects, including:

- structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- growth rate;
- control of foreign exchange; and
- methods of allocating resources.

Since 1949, China has been primarily a planned economy subject to a system of macroeconomic management. Although the Chinese government still owns a significant portion of the productive assets in China, economic reform policies since the late 1970s have emphasized decentralization, autonomous enterprises and the utilization of market mechanisms. We cannot predict what effects the economic reform and macroeconomic measures adopted by the Chinese government may have on our business or results of operations.

If tax benefits available to certain of our subsidiaries and variable interest entities located in China are reduced or repealed, our business could suffer.

Our China-based subsidiaries Sohu Era and Sohu Software and our variable interest entity Sohu Internet enjoy tax benefits which are available to “new technology enterprises” incorporated in Beijing Zhongguancun Science Park. Subject to the approval of the relevant authorities, the effective income tax rate for new technology enterprises registered and operating in Beijing Zhongguancun Science Park is 15%, while the local income tax will be exempted as long as the enterprise holds the new technology enterprise status. New technology enterprises are exempted from Chinese state corporate income tax for three years, beginning with their first year of operations, and are entitled to a 50% tax reduction at the rate of 7.5% for the subsequent three years. Sohu Era, Sohu Software and Sohu Internet were incorporated in 2003 and, providing there is no change in their status as a new technology enterprise or a change in the relevant regulations, will be subject to an effective tax rate of 0% in 2003, 2004 and 2005, 7.5% in 2006, 2007 and 2008 and 15% thereafter. At this time we expect most all of our sales and our income to be earned from our Zhongguancun-based subsidiaries and our Zhongguancun-based variable interest entity. If there were changes to the tax regulations in China or our subsidiaries and Sohu Internet did not meet the requirements of a new technology enterprise, we could be subject to enterprise income tax in China at rates up to 33% which could cause a significant reduction in our after-tax income.

The PRC legal system embodies uncertainties which could limit the legal protections available to us and you.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Our PRC operating subsidiary, Beijing ITC, is a wholly-foreign owned enterprise, or a WFOE, which is an enterprise incorporated in mainland China and wholly-owned by our indirect subsidiary, Sohu Hong Kong. Beijing ITC is subject to laws and regulations applicable to foreign investment in mainland China. However, these laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Internet, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

Restrictions on currency exchange may limit our ability to utilize our revenues effectively.

Substantially all of our revenues and operating expenses are denominated in Renminbi. The Renminbi 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.

Currently, Beijing ITC may purchase foreign exchange for settlement of “current account transactions”, including payment of dividends, without the approval of the State Administration for Foreign Exchange, or SAFE. Beijing ITC may also retain foreign exchange in its current account (subject to a ceiling approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC governmental authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future.

Since a significant amount of our future revenues will be in the form of Renminbi, the existing and any future restrictions on currency exchange may limit our ability to utilize revenue generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies.

Foreign exchange transactions under the capital account are still subject to limitations and require approvals from the SAFE. This could affect Beijing ITC’s ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

We may suffer currency exchange losses if the Renminbi depreciates relative to the U.S. Dollar.

Our reporting currency is the U.S. Dollar. However, substantially all of revenues are denominated in Renminbi. Our revenues as expressed in our U.S. Dollar financial statements will decline in value if the Renminbi depreciates relative to the U.S. Dollar. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. 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 availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into U.S. Dollars.

It may be difficult to enforce any civil judgments against us or our board of directors or officers, because most of our assets are located outside of the United States.

Although we are incorporated in the State of Delaware, a significant portion of our assets are located in the PRC. As a result, it may be difficult for investors to enforce outside the United States in any actions brought against us in the United States, including actions predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. In addition, certain of our directors and officers (principally in the PRC) and all or a substantial portion of their assets may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those directors and officers, or to enforce against them or us judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. We have been advised by our PRC counsel that, in their opinion, there is doubt as to the enforceability in the PRC, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States or the securities laws of any state of the United States.

Risks Related to Our Common Stock

The market price of our common stock has been and will likely continue to be volatile. The price of our common stock may fluctuate significantly, which may make it difficult for stockholders to sell shares of our common stock when desired or at attractive prices.

The market price of our common stock has been volatile and is likely to continue to be so. The initial public offering price of our common stock in July 2000 was $13.00 per share. The trading price of our common stock subsequently dropped to a low of $0.52 per share on April 9, 2001. During the last two quarters of 2002, the trading price of our common stock ranged from a low of $1.20 per share to a high of $6.94 per share, and during the first half of 2003 and the fourth quarter through November 11, 2003, the trading price of our common stock ranged from a low of $6.10 per share to a high of $43.40 per share. On November 11, 2003, the closing price of our common stock was $31.50 per share.

In addition, the Nasdaq Stock Market's National Market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies, and particularly Internet-related companies.

The price for our common stock may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options or other stock awards.

The sale or availability for sale of substantial amounts of our common stock could adversely affect its market price.

There were approximately 35,994,859 shares of our common stock outstanding as of October 31, 2003, as well as options to purchase an additional 4,738,847 shares of our common stock. Of the outstanding shares, 25,424,216 were issued prior to the initial public offering of our common stock. These shares are either freely tradable without restriction under Rule 144(k) under the Securities Act or are tradable subject to the notice, volume and manner of sale restrictions of Rule 144 under the Securities Act.

Sohu issued 4,600,000 shares of common stock in connection with the initial public offering. All of these shares are freely tradable without restriction unless they are held by our "affiliates" as that term is defined in Rule 144 under the Securities Act.

On October 18, 2000, we issued an aggregate of 4,401,500 shares of our common stock to the former stockholders of ChinaRen in connection with our acquisition of that company. All of these shares are currently freely tradable without restriction.

We issued $90 million of zero coupon convertible senior notes due July 2023 which we may not be able to repay in cash and could result in dilution of our earnings per share.

In July 2003, we issued $90 million aggregate principal amount of zero coupon convertible senior notes due July 2003. The notes are convertible into our common stock at a conversion price of $44.76 per share, subject to adjustment upon the occurrence of specified events, which would result in the issuance of an aggregate of approximately two million shares. Therefore, each $1,000 principal amount of the notes will initially be convertible into 22.3414 shares of our common stock. Each holder of the notes will have the right, at the holder's option, to require Sohu to repurchase all or any portion of the principal amount of the holder's notes on July 14 in 2007, 2013 and 2018 at a price equal to 100% of the outstanding principal amount. We may also be required to repurchase all of the notes following a fundamental change of Sohu, such as a change of control, prior to maturity. We may not have enough cash on hand or have the ability to access cash to pay the notes if presented for redemption on a fundamental change, on a redemption date referred to above or at maturity. In addition, the redemption or purchase of our notes with shares of our common stock or the conversion of the notes into our common stock could result in dilution of our earnings per share.

We are controlled by a small group of our existing stockholders, whose interests may differ from other stockholders.

Our president and chief executive officer, Dr. Charles Zhang, beneficially owns approximately 24% of the outstanding shares of our common stock and is our largest stockholder. Our second largest stockholder, together with our chief executive officer, our other executive officers and members of our Board of Directors, beneficially own approximately 50% of the outstanding shares of our common stock. Accordingly these stockholders acting together will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations, the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They will also have significant influence in preventing or causing a change in control. In addition, without the consent of these stockholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these stockholders may differ from the interests of the other stockholders.

Holders of a majority of the outstanding shares of our common stock are parties to an agreement under which they have agreed to vote together in favor of a nominee of one of our stockholders to our board of directors. As a result of their voting power, they will have the ability to cause that nominee to be elected.

Anti-takeover provisions of the Delaware General Corporation Law, our certificate of incorporation and Sohu's Stockholder Rights Plan could delay or deter a change in control.

Some provisions of our certificate of incorporation and bylaws, as well as various provisions of the Delaware General Corporation Law, may make it more difficult to acquire our company or effect a change in control of our company, even if an acquisition or change in control would be in the interest of our stockholders or if an acquisition or change in control would provide our stockholders with a premium for their shares over then current market prices. For example, our certificate of incorporation provides for the division of the board of directors into two classes with staggered two-year terms and provides that stockholders have no right to take action by written consent and may not call special meetings of stockholders, each of which may make it more difficult for a third party to gain control of our board in connection with, or obtain any necessary stockholder approval for, a proposed acquisition or change in control.

In addition, we have adopted a stockholder rights plan under the terms of which, in general, if a person or group acquires more than 20% of the outstanding shares of common stock, all other Sohu stockholders would have the right to purchase securities from Sohu at a substantial discount to those securities' fair market value, thus causing substantial dilution to the holdings of the person or group which acquires more than 20%. The stockholder rights plan may inhibit a change in control and, therefore, could adversely affect the stockholders' ability to realize a premium over the then-prevailing market price for the common stock in connection with such a transaction.

The power of our Board of Directors to designate and issue shares of preferred stock could have an adverse effect on holders of our common stock.

Our certificate of incorporation authorizes our board of directors to designate and issue one or more series of preferred stock, having rights and preferences as the board may determine, and any such designations and issuances could have an adverse effect on the rights of holders of common stock.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

FOREIGN CURRENCY EXCHANGE RATE RISK

The majority of our revenues, expenses and liabilities are denominated in Chinese renminbi. Thus, revenues and operating results may be impacted by exchange rate fluctuations in the renminbi when financial results are

translated in U.S. dollars on consolidation. Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting the ability to convert Chinese renminbi into foreign currencies
and, if the renminbi were to decline in value, reducing revenue in U.S. dollar terms. We have not tried to reduce exposure to exchange rate fluctuations by using hedging transactions but may choose to do so in the future. We may not be able to do this successfully. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. The effect of foreign exchange rate fluctuations on us in the three and nine months ended September 30, 2003 was not material.

INVESTMENT RISK

a) Investments in Beijing Sohu, High Century, Hengda, Sohu Internet and Sohu-Guolian

We have entered into the following arrangements with Dr. Charles Zhang, our Chief Executive Officer and a major Sohu shareholder, and certain of our employees to satisfy PRC regulations which prohibit or restrict foreign companies from owning or operating telecommunications, internet content and certain other businesses in China. We expect that we will continue to be involved in and provide additional financial support under similar arrangements in the future.

Under Section 402 of the Sarbanes-Oxley Act of 2002, issuers subject to the act are prohibited from making personal loans to their directors and executive officers. Under Section 402, issuers are permitted to maintain the loans they made to directors and executive officers prior to the effective date of the Sarbanes-Oxley Act. They are not permitted, however, to renew or materially modify such loans. We believe that there is a strong argument that the loans to Dr. Zhang described below are not “personal loans,” in view of our underlying business purpose for making the loans and the lack of a personal benefit to Dr. Zhang from the loans. In the absence of judicial interpretation, an SEC rule, or an SEC staff interpretation confirming our conclusion, however, we intend to treat these loans as if they were “personal loans” under Section 402 of the Sarbanes-Oxley Act. Accordingly, we expect that if we enter into arrangements similar to those described below in the future, any loans made under such arrangements will be made to individuals who are not our directors or executive officers. In addition, should the existing loans to Dr. Zhang, or to the entities in which he is the primary shareholder, need to be renewed or materially modified, such as if we need to advance additional funds to any of these entities, we expect that the entities, the ownership of the entities and/or the loans to the entities will be restructured so that we could not be deemed to be making a loan to Dr. Zhang. The prohibitions set forth in Section 402 have not had any adverse effect on our operations to date, and we do not expect them to have any adverse effect in the future.

In June 2000, we extended loans in the amount of $193,000 to Dr. Charles Zhang and $49,000 to He Jinmei, another employee of Sohu, to finance their investments in Beijing Sohu, a company incorporated in the PRC. The shareholders of Beijing Sohu have pledged their shares in Beijing Sohu as collateral for the loan. These loans bear no interest and are due in full on the earlier of demand, in 2010’ or at such time as Dr. Charles Zhang or He Jinmei, as the case may be, is not an employee of Sohu. A subsidiary of Sohu has entered into an option agreement giving it the right, at any time, subject to PRC law, to purchase the entire ownership in Beijing Sohu from the two Beijing Sohu shareholders for $242,000.

In November 2001, we entered into a loan and share pledge agreement with Dr. Charles Zhang, and Li Wei, another employee of Sohu, for the purpose of funding an equity investment of $4,595,000 by these two individuals in High Century, a company incorporated in the PRC which engages in investment holding in the PRC on behalf of Sohu. Pursuant to the loan agreement, we have extended total loans amounting to $4,595,000 of which $3,676,000 and $919,000 were loaned to Charles Zhang and Li Wei, respectively.

In January 2002, we entered into a loan and share pledge agreement with Li Wei for the purpose of funding an equity investment of $242,000 by Li Wei in Hengda, a company incorporated in the PRC which engages in Internet access services in the PRC on behalf of Sohu. The $242,000 investment represents a 20% interest in Hengda, with High Century holding the remaining 80% interest.

In June 2003, we entered into a loan and share pledge agreement with He Jinmei for the purpose of funding an equity investment of $121,000 by He Jinmei in Sohu Internet, a company incorporated in the PRC which engages in Internet information services in the PRC on behalf of Sohu. The $121,000 investment represents a 20% interest in Sohu Internet, with High Century holding the remaining 80% interest.

The loan agreements under which funds are provided to invest in High Century, Hengda and Sohu Internet are subject to PRC law and include provisions that (i) the loans can only be repaid to us by transferring the shares of High Century, Hengda or Sohu Internet to us, (ii) the shares of High Century, Hengda or Sohu Internet cannot be transferred without the approval of Sohu, and (iii) we have the right to appoint all directors and senior management personnel of High Century, Hengda and Sohu Internet. Charles Zhang, Li Wei and He Jinmei have pledged all of their shares in High Century, Hengda and Sohu Internet as collateral for the loans and the loans bear no interest and are due on demand after November 2003, in the case of High Century, after January 2003, in the case of Hengda, and after June 2004, in the case of Sohu Internet, or at such time as Dr. Charles Zhang, Li Wei or He Jinmei, as the case may be, is not an employee of Sohu. We do not intend to request repayment of the loans as long as PRC regulations prohibit us from directly investing in businesses being undertaken by High Century, Hengda and Sohu Internet.

In April 2002, High Century invested $3,080,000 in Sohu-Guolian, a company incorporated in the PRC, for a 51% equity interest in and joint control of Sohu-Guolian. Sohu-Guolian provides technical services to the PRC online securities trading and financial services industries. In September 2003, Sohu-Guolian commenced liquidation procedures. During the three months ended September 30, 2003, Sohu made a provision of $345,000 against the investment in Sohu-Guolian.

Each of Beijing Sohu, High Century, Hengda, and Sohu Internet is a VIE, as defined under FIN 46, "*Consolidation of Variable Interest Entities,* with Sohu as the primary beneficiary and consolidated in Sohu's financial statements. Sohu adopted the provisions of FIN 46 for Beijing Sohu, High Century and Hengda as of July 1, 2003 and for Sohu Internet upon its formation.

(b) Investment in marketable debt securities

Sohu invests in marketable debt securities to preserve principal while at the same time maximizing yields without significantly increasing risk. These marketable debt securities are classified as available-for-sale because we may dispose of the securities prior to maturity and they are thus reported at the market value as of the end of the period. As of September 30, 2003, unrealized gains of $451,000 were recorded as accumulated other comprehensive income in shareholders' equity.

ITEM 4. CONTROLS AND PROCEDURES

Our chief executive officer and chief financial officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the "Evaluation Date"), have concluded that as of the Evaluation Date our disclosure controls and procedures were effective and designed to ensure that material information relating to Sohu would be made known to them by others within the company. During the period covered by this quarterly report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material legal proceedings pending or, to our knowledge, threatened against us. From time to time we become subject to legal proceedings and claims in the ordinary course of our business. Such legal proceedings or claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

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

During the three months ended September 30, 2003, we did not use any proceeds from the offering. The remaining net proceeds from the offering have been invested in cash, cash equivalents, and marketable debt securities. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

We completed a private placement on July 14, 2003 of $90 million principal amount of zero coupon convertible senior notes due July 2023, which offering resulted in net proceeds to Sohu of approximately $87,350,000 after deduction of the initial purchaser's (Merrill Lynch, Pierce, Fenner & Smith Incorporated) discount and our offering expenses. The notes do not pay any interest, have a zero yield to maturity, and are convertible into Sohu's common stock at a conversion price of $44.76 per share, subject to adjustment. Each $1,000 principal amount is initially convertible into 22.3414 shares of Sohu's common stock. Each holder of the notes will have the right, at the holder's option, to require Sohu to repurchase all or any portion of the principal amount of the holder's notes on July 14 in 2007, 2013 and 2018 at a price equal to 100% of the outstanding principal amount. Sohu may also redeem all or a portion of the notes for cash at any time on or after July 14, 2008 at 100% of the principal amount of the notes if the closing price of its common stock for each of the 30 consecutive trading days prior to such time was at least 130% of the conversion price or at such time at least 90% of the initial aggregate principal amount of the notes have been converted, repurchased or redeemed. In addition, upon a change of control event, each holder of the notes may require Sohu to repurchase some or all of its notes at a repurchase price equal to 100% of the principal amount of the notes plus accrued and unpaid interest. We have filed a registration statement with the Securities and Exchange Commission to register for resale the notes and the common stock issuable upon conversion of the notes. However, until the registration statement becomes effective, the notes may be offered and sold only in transactions that are exempt from registration under the U.S. Securities Act of 1933 and the securities laws of any other jurisdiction.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Please see the Exhibit Index attached hereto.

(b) Reports on Form 8-K.

On July 10, 2003, Sohu filed a Current Report on Form 8-K in connection with its proposed offering and pricing in a private placement of its zero coupon convertible senior notes and its announcement of the highlights of its earnings results for the quarter ended June 30, 2003. On the same day, Sohu filed another Current Report on Form 8-K to update its Risk Factors.

On July 14, 2003, Sohu filed a Current Report on Form 8-K in connection with its announcement of the issuance of an additional $20 million principal amount of zero coupon convertible senior notes.

On July 16, 2003, Sohu filed a Current Report on Form 8-K in connection with its completion of the private placement of $90 million aggregate principal amount of zero coupon convertible senior notes.

On July 23, 2003, Sohu filed a Current Report on Form 8-K to update its Risk Factors.

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.

SOHU.COM INC.

Dated: November 14, 2003

By: /s/ DEREK PALASCHUK

Chief Financial Officer & Senior Vice President (Principal Financial Officer)

EXHI BITS INDEX

10.1	Hosting Service Agreement effective July 21, 2003 between Beijing Sohu New Era Information Technology Co., Ltd., Sales Office of Beijing Communication Corporation and Beijing Sohu Internet Information Service Co., Ltd. (portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC).
10.2	Mobile Data Service Cooperation Agreement dated March 25, 2003 between China Unicom Co., Ltd. and Beijing Sohu Online Network Information Service Co., Ltd.
10.3	Monternet Short-messaging Service Cooperation Agreement effective May 1, 2003 between China Mobile (Beijing) Co., Ltd. and Beijing Sohu Online Network Information Services Limited
31.1	Rule 13a-14(a)/15d-14(a) Certification of Dr. Charles Zhang
31.2	Rule 13a-14(a)/15d-14(a) Certification of Derek Palaschuk
32.1	Section 1350 Certification of Dr. Charles Zhang
32.2	Section 1350 Certification of Derek Palaschuk

Hosting Service Agreement

Beijing Sohu New Era Information Technology Co., Ltd. (hereinafter known as Party A), Sales Office of Beijing Communication Corporation (hereinafter known as Party B), and Beijing Sohu Internet Information Service Co., Ltd. (hereinafter known as Party C), after consensus among three parties regarding Party B providing data center service for Party A, have reached agreement as follows:

I. Party B agrees Party A placing its information server and the accessory equipment in Party B's communication mechanical room for Party A to initiate its Internet computer information service.

II. Rights and Obligations of Party A

1. Party A shall provide a duplicate copy of business license for Internet information service added value communication operation or a related proof of filing of non-operational Internet information service to Party B.

2. Should Party A plan to provide electronic bulletin service, a special application or special filing shall be submitted to the relevant departments in accordance with the laws and regulations of the People's Republic of China, and shall provide the related proofs of the special application or special filing.

3. Party A's information operation must conform to the "Administrative Procedure for Internet Information Service", "Administrative Provision for Internet Electronic Bulletin Service", and other relevant laws and regulations of the People's Republic of China. Party A shall not engage in any illegal operation and shall be held liable for any legal liability induced by its information operation.

4. The information server equipment placed by Party A in Party B's communication mechanical room shall meet all the technical interface indices and terminal communication technical standards of communication network of the People's Republic of China. Electronic features and communication methods shall not affect the safety of public network.

5. Party A shall comply to the administrative rules of mechanical room of Party B and shall assure the safety of its information server equipment and information content.

6. Party A shall pay the fees to Party B in accordance with the amount, due date, and method stipulated in this Agreement.

7. Should Party A require Party B to provide services, such as reset of host computer, Party A shall provide accurate contact telephone number to Party B for confirmation. Should the telephone number provided by Party A be inaccurate or notification of telephone number change be delayed leading to failure of confirmation by Party B, Party B shall reserve the right not to bear the obligation of providing services, such as reset of host computer of Party A. Party A shall be held liable to bear all losses.

8. Party A shall be fully liable for any illegal operation leading to damage of Party B's equipment. The compensation shall be limited by the repurchase cost of the damaged equipment and hardware, and shall not include the relevant software, databanks, and the similar configurations.

9. Within 30 days of placing server in Party B's mechanical room, Party A shall process the relevant filing procedure in Beijing Computer Security Inspection Department. The contact of Beijing Computer Security Inspection Department is Wang Qi, and the telephone number is 65249006.

10. Party A shall mark the phrase "Network bandwidth provided by IDC of Beijing Communication Company " on the bottom of the homepage of SOHU website. Furthermore, in pursuance to the consultation between Party B and Party A, Party A shall promptly place the related advertisements and "logo" of Party B at distinct locations in accordance with the requests of Party B. Party B shall inform Party A at least 5 days in advance. The dimension of logo and the textual length must meet the website requirement of Party A.

11. Party A promises that the exclusive line provided by Party B shall only be used for hosting server maintenance and data update and shall not be used for connection to Internet.

III. Rights and Obligations of Party B

1. The standard mechanical room environment provided by Party B for placement of information server of Party A shall include air conditioning, illumination, temperature, and anti-static floor panels.

2. Party B shall provide dual lines of electricity to Party A, and every rack shall be able to provide total load of 16A of electricity per line. Party A guarantees that the total load will not exceed 16A in the other line when tripping occurs in one line of power supply. Otherwise, Party A shall be liable for any consequence. The height of rack provided by Party B to Party A shall be 60U. Should part of space of the rack be unusable by Party A due to power supply of Party B, Party B shall assign equivalent space in another rack to Party A.

3. Party B guarantees 99.9% of connection of network system of Party A, i.e. less than 44 minutes (forty-four minutes) of no connection time per month.

*

"Time of network connection failure" refers to the accumulated time of no connection of reporting within 24 hours of occurrence of "no network connection" with confirmation of Party B that the connection failure is fault of Party B. Should the followings cause connection failure of network system of Party A, the time is not calculated in the "time of network connection failure":

☐ Result of network maintenance by Party B with advance notice to Party A

☐ Caused by any circuit or equipment of Party A

☐ Result of application programs or installation activities of Party A

☐ Result of negligence of Party A or authorized operation of Party A

4. Through friendly consultations between Party A and Party B, Party B shall provide the following package services to Party A:

(1) Party B shall provide * standard racks in Zaojunmiao mechanical room for the placement of information server and accessory equipment of Party A (hereinafter known as information server).

(2) *

(3) Party B shall provide backup link. The specific plan shall be an attachment of this Agreement after affirmation by Party A and Data Operation Department of Party B.

(4) Party B shall provide * of fiber optic maintenance exclusive line (from office of Party A to mechanical room of Party B).

(5) Party B shall be responsible for the daily maintenance and equipment safety of information server of Party A and shall implement around-the-clock specially assigned person on-duty system to assure the normal operation of information server of Party A.

(6) Party B shall assist Party A undergoing equipment installation, connection testing, and domain name setup. Domain name: www.sohu.com.

5. Party A shall submit the information content to the relevant competent authorities for examination to assure the quality and healthiness of information. Should the information of Party A violate laws, regulations, and policies, Party B shall temporarily suspend or permanently terminate the online service of Party A in accordance with the orders from the relevant authorities.

6. Should Party B affect or may affect the online service of Party A due to network construction, Party B shall notify the relevant contact of Party A at least 24 hours in advance. Should Party B fail to notify 24 hours in advance causing Party A to suffer loss, Party B shall be held for breach of contract according to Clause 2 of Article VI. Should the information provided by Party A be erroneous or Party A fail to promptly inform Party B about the change of contact leading to delay, Party B shall not be held liable.

7. Party B cannot guarantee that the service provided can absolutely prevent the loss, change, and unauthorized access of Party A's data storing in the host computer in the mechanical room of Party B.

8. Should Party B, according to its own judgment, believe that the utilization of service by Party A may result in serious threat to computer safety or serious interference to data center of Party B or the normal operation of the related services or some actions during the utilization of service by Party A are prohibited by court or governmental order, Party A shall have the right to restrict or terminate all or partial service used by Party A.

9. Party B shall properly keep consigned equipment of Party A. Should the fault of Party B cause damage to equipment of Party A, Party B shall compensate the loss. The compensation shall be limited to the re-purchase cost of the equipment or hardware, excluding the related software, databank, or similar configurations.

IV. Obligations of Party C

1. Party C shall pay the fees to Party B in accordance with the amount, payment time, and method stipulated in this Agreement.

V. Operation and Ownership of Property Right

1. The property right of facilities and equipment of Party B that are used to accommodate information server of Party A shall belong to Party B.

2. The information server and accessory equipment of Party A that are placed in the mechanical room of Party B shall belong to Party A. In pursuance to observance of articles stipulated under this Agreement, Party A shall have the right

to autonomy in business operations

VI. Fees, Payment Time, and Payment Method

1. *

2. Party B shall mail the balance statement to Party A and Party C on the 21st day of every month.

3. Party A and Party C shall pay the fee for the service provided from the 21st day of previous month to the 20th day of this month within 10 working days after 21st day of every month.

4. Should there be readjustment of national charging fee within the effective period of the Agreement, the three parties shall execute in accordance with the new charging fee standard.

5. Party A and Party C shall pay the fees to Party B in the form of Check. Party B shall provide official receipt equivalent to the amount of payment to Party A and Party C at the time of receiving checks from Party B.

VII. Liability for Breach of Contract

1. Should any party of Party A and Party C fail to pay the fees to Party B in accordance with the amount, payment time, and method stipulated under the Agreement, Party A and Party C shall be held liable jointly, and shall pay a penalty of * of the due amount daily to Party B. Should the delay of payment exceed 30 days, Party B shall reserve the right to temporarily suspend the online service of Party A. Should the delay exceed 60 days, Party B shall have the right to terminate the online service of Party A and demand payment of the due fees and penalty charges. Party B shall restore the on-line service of Party A within 48 hours of receiving the due payments and penalty charges from Party A and Party C.

2. Should Party B fail to provide the service quality stated in Clause 3 of Article III in any month, Party B shall reduce the port monthly leasing fee of that month by an amount equal to *.

3. Should the illegal operation of Party A lead to economic losses of Party B, Party A shall be held liable fully and shall compensate for all losses of Party B.

4. Should any party of Party A, Party B, and Party C discretionarily terminate the Agreement causing losses to other two parties, the party terminating the Agreement shall bear all the losses incurred on the other parties. *

VIII. Exemption Clause

1. Should any party fail to execute this Agreement due to force majeure, some or all of the responsibilities may be exempted according to the impact of force majeure. However, should the occurrence of force majeure take place after delay fulfillment of the obligation by the party, the responsibility shall not be exempted.

2. Should any party fail to execute the Agreement due to force majeure, the party shall promptly inform the other two parties to minimize the possible losses and shall provide the proof of force majeure and its effect on the execution of the Agreement within a reasonable time period.

3. Due to the unique features of Internet, the speed of the connection may be reduced at times, or the connection may be discontinued briefly. Both Party A and Party B acknowledge that these occurrences are normal. However, the annual accumulated discontinuing time shall not exceed 12 hours, and Party B shall not be held liable within this limit. Should the discontinuing time exceed 12 hours within one year, Party B shall reduce the fee paid by Party A in accordance with Clause 2 of Article VI.

IX. Settlement of Dispute

Any disputes arising from the execution of, or in connection with this Agreement shall be settled through friendly consultations among three parties. In case no settlement can be settled through consultations, the disputes shall be submitted to Beijing Arbitration Commission for arbitration in accordance with its rules of procedure.

X. Term of Contract, Termination, Amendment, and Renewal

1. This Agreement shall be effective from July 21, 2003 to July 20, 2004.

2. Should any party desire to terminate this Agreement within the effective period of this Agreement, a written request shall be submitted to the other two parties 30 days in advance, and this Agreement may be terminated upon approval of the other two parties. However, the party requesting termination shall bear the resulting losses of other two parties.

3. Should there be adjustment of national laws, regulations, or policies or three parties desire to modify article, three parties shall modify the content of the Agreement or terminate this Agreement in accordance with the national laws, regulations, or policies.

4. Should Party A require continuing service of Party B after expiration of this Agreement, Party A shall submit application. The Agreement shall be renewed after all three parties have reached consensus.

XI. This Agreement shall come into force upon signing by the three parties.

XII. This Agreement shall have six copies with each party holding two copies and shall be equally authentic.

Party A: (Seal)

Legal Representative: (Signature)

Authorized Proxy: (Signature)

Signing Date: October 10, 2003

Party B: (Seal)

Leading Official of Company: (Signature)

Authorized Proxy: (Signature)

Signing Date: October 10, 2003

Party C: (Seal)

Legal Representative: (Signature)

Authorized Proxy: (Signature)

Signing Date: October 10, 2003

Contact of Party A:	**Contact of Party B:**	**Contact of Party C:**
Xu Huiquan	**Zhang Hui**	

Telephone: 65102160 – 6488, 13901389798	**Telephone: 63067016, 13910897829**	**Telephone:**
Fax: 65102179	**Fax: 63067737**	**Fax:**
E-mail:hunterxu@sohu-inc.com	**Email: zhanghui@publicf.bta.net.cn**	**E-mail:**
Mailing Address:	**Mailing Address:**	**Mailing Address:**
7 Jianguomenneidajie, Chang'an Tower #2 15th Floor	**2 Huayuanbeijie, Tonggang Tower Room 706, Xicheng District, Beijing**	
Postal Code: 100005	**Postal Code: 100032**	**Postal Code:**

* Omitted pursuant to request for confidential treatment and filed separately with the Commission.

Exhibit 10.2

China Unicom

Mobile Data Service Cooperation Agreement

Agreement Number:CUVAS-A0300X

Party A: China Unicom Co., Ltd

Party B: Beijing Sohu Online Network Information Services, Limited

Date: March 25, 2003

Contents

Prelude

This Agreement is executed by the parties on March 25, 2003, in Beijing:

China Unicom Co., Ltd (hereinafter referred to as "Party A"), a company incorporated and existing in accordance with Chinese laws with the legal address at No. A133, Xi Dan Bei Avenue, Xicheng District, Beijing, China, and the legal representative as Yang Xianzu;

Beijing Sohu Online Network Information Service Co., Ltd (hereinafter referred to as "Party B"), a company incorporated and existing in accordance with Chinese laws with the legal address at No. 7 Jian Guo Men Nei Avenue, Dongcheng District, Beijing, China, and the legal representative as Zhang Chaoyang.

Chapter I Objectiveness

WHEREAS,

1. Party A, a telecom operator authorized by the competent authority of information industry under the State Council and engaged in providing infrastructure telecom services and value-added telecom services to nationwide customers, is equipped with its own infrastructure telecom networks, data service platforms, service sales system, extensive customer base. Party A is fully entitled to execute and perform this Agreement.

2. Party B, a content provider (CP) and service provider (SP) providing mobile data contents/services, is qualified and authorized to engage in the business set out hereunder, and has procured the following qualification certificates:

   a. No. 1102282020357 Business License

   b. Jing ICP Zheng No. 000008 License of Internet Information Service;

   c. No. ______ License of Value-added Telecom Service

   d. Other certificates of qualification and/or business tests accepted by Party A.

Party B is fully entitled to execute and perform this Agreement, and wish to provide the mobile data content services to customers via mobile communication network and data service platform of Party A.

NOW THEREFORE:

The parties hereby agree as follows in the principle of equality, mutual benefit and win-win strategy in an effort to develop and enrich the mobile data services of China Unicom.

Chapter II Definitions

This Agreement expressly defines the following terms as follows. Other terms not defined hereunder shall have the meaning defined by the applicable laws, regulations, or Chinese laws or government policies, or as defined by the industry practice in case of no legal provisions.

2.1 CP/SP

CP, abbreviated from the Content Provider, refers to the content provider. “CP” hereunder refers to the providers of the information for the services hereunder only.

SP, abbreviated from Services Provider, refers to the service providers. “SP” hereunder refers to the professional service organizations providing communication and information services, including the network operators, and those providing portfolio services by integrating services of other network operators.

“CP/SP” hereunder refers to any professional organizations willing to cooperate with Party A to provide mobile data services to the mobile communication network users of Party A via the mobile communication network and data service platform of Party A.

2.2 Users

Any individual, legal person or other organization linking with the mobile communication network and data service platform of Party A via the mobile terminals or other telecom terminals accepted by Party A, and willing to accept the mobile data services of Party A and Party B.

2.3 Mobile Data Service

Data services and applications carried by the mobile telecom network of Party A.

2.4 Mobile Communication Network and Data Service Platform

In this agreement, the Mobile Communication Network refers to the infrastructure of Party A to provide mobile communication services. The data service platform refers to the service platform for one or more than one data services on the basis of the Mobile Communication Network, including but not limited to the user interfaces, CP/SP interfaces, business management and application billing, etc.

2.5 Supporting System

User management system, billing system, settlement system, accounting system and other systems to ensure normal service operation.

2.6 Communication Channel

Physical and logic connections in the mobile communication system to support user communication.

2.7 Ports

Interface configurations to support the communication connections between the Data Service Platform and Mobile Communication Network, Data Service Platform and application services of CP/SP, including communication addresses and other relevant parameters.

2.8 Traffic Volume

Incoming/outgoing communication traffic volume of the Data Service Platform.

2.9 Test

Test of the services provided by CP/SP by specific tools and methods, which may include the network interconnection test, interface consistency test and function test, to ensure up to the requirements of formal operation of the services.

2.10 Discontinuance Grace Period

With the pending discontinuance of CP/SP services, to alleviate the loss thus incurred to Users, CP/SP shall notify users for certain period beforehand in appropriate manners, during which period Party B shall provide services to users as per user agreements. The advance period is defined as the discontinuance grace period.

2.11 Equipment Connection Points

Connecting points between two physical or logical facilities.

2.12 Maintenance Interface

The whole business system of user service consists of different parts under the maintenance of different parties. The Maintenance Interface refers to the points of dividing the maintenance responsibilities of different parties.

2.13 System Maintenance

Necessary routine maintenance and troubleshooting for normal operation of the business system.

2.14 Gateway

The facility supporting protocol conversion and system interconnection.

2.15 Customization

Users define the specific requirements of the services and voluntarily require to accept the services.

2.16 7×24

7 days a week, 24 hours a day, regardless of holidays.

2.17 Communication Premium

Premium for use of Party A's network resources by the User or CP/SP, collected by Party A to the User or CP/SP and owned by Party A.

2.18 Information Service Premium

Premium except for the Communication Premium for the use of CP/SP contents or application services by the User. The Information Service Premium is shared by Party A and Party B in the agreed proportion, as Party A shall provide access services, customer services, premium collection and billing services.

2.19 Corporate Code

Corporate Code, abbreviated from "China Unicom Mobile Data Service CP/SP Corporate Code", is the unique corporate mark of Party A to Party B.

Chapter III Cooperation Scope and Task Interfaces

3.1 Party A shall provide the Communication Channel and network user resources to Party B at a price, and provide premium services including the access services, user services, billing services and premium collection services via its customer service system, billing system and Supporting System (billing/settlement standards and methods as set out in Exhibit 1).

3.2 Party A assigns the Corporate Code of 20001 to Party B.

3.3 Party A shall ensure the Corporate Code is unique and reliable. The Parties agree that, in Party A's systems, including but not limited to the billing and settlement system, data service platform system, customer system, the Corporate Code is equivalent to the company name of business entity of Party B.

3.4 Party B shall provide the users with the mobile data services as set out in Exhibit 2 via the Mobile Communication Network and Data Service Platform of Party A.

3.5 Upon providing of mobile data services (including any change thereof), Party B shall procure the written acceptance of the test by Party A. Party A shall, upon the request of Party B, issue the written acceptance to Party B when Party A's test of Party B's service proves Party B's capability to provide the mobile data services.

3.6 Prior to provision of any mobile data services to Party A's users in any manner, Party B shall fully notify the users of such services, stating at least the content, manner and premium standards of such services. Party B shall not provide any such services to users unless Party B has performed the above notification obligations in the certified manner and has procured the confirmation and/or customization requests of the users for the value-added mobile data service in the certified manner. Without prior written consent of Party A, Party B shall neither regard "customer silence" as the confirmation, nor rely on such compulsory manner as "absence of calls or short messages for denying the customization shall constitute the confirmation" to make customized services at a price, nor incur unnecessary cost to users for such issues.

3.7 During the term of this Agreement, the parties shall respectively undertake the maintenance of respective facilities according to the Equipment Connection Point, as set out in Exhibit 4.

3.8 During the term of this Agreement, Party B shall report to Party A, at request, about the user base, user categorization, user habits, business forecast and other information, and promptly furnish Party A with the user data about the service management to ensure real-time upgrade of the user database of Party A.

3.9 Party B agrees to strictly abide by existing and future regulations, quality standards, user service standards and other documents of mobile data services formulated by Party A in the providing of mobile data services.

3.10 During the term of this Agreement, any new mobile data service or change of business scope and price by Party B are subject to the billing test of Party A and written consent of Party A.

3.11 The parties may jointly or independently promote the mobile data services in various manners as necessary.

3.12 Party A is entitled to consult with Party B to use the brands of China Unicom, and promote the mobile data services by confirmation of Party A.

3.13 Party B shall not use the name, marks and other data of Party A in its independent marketing of mobile data services without the request of Party A or without written consent of Party A.

3.14 Party B shall be liable to any liability arising out of the provision of any mobile data services to users by any third party via the maintenance interfaces of Party B. In this case, Party A shall not be liable to users or any such third party in any aspect.

Chapter IV Customer Service Management Interfaces

4.1 The parties shall each keep the 7×24 hours hotline service centers.

4.2 In case Party A customer complaint center or consultation center transfer the non-Party-A problems to Party B, Party B shall respond to Party A or users within one (1) hour, and provide the final solution or troubleshooting method thereof.

4.3 Party B shall not require the users to contact Party A directly on the ground that the consultation or complaint falls within the duties of Party A. In this case, the user service staff or user service system of Party B shall assist Party A for diagnosis and troubleshooting, and contact Party A within one (1) hour, and transfer the issue to Party A upon Party A’s confirmation.

4.4 In case the parties fail to determine the liabilities to the consultation or complaint it receives, the concerned party shall contact the other party within one (1) hour, find out the responsibility party, and try to address the customer problem and avoid dodging duties.

Chapter V Mobile Data Service Security

5.1 Party A is entitled to make necessary test and data statistics to the services provided by Party B during the term of this Agreement, and is entitled to require correction of Party B according to Party A's regulations of mobile data services based on the test.

5.2 Party A is entitled to control and adjust the Traffic and Ports of Party A's Maintenance Interfaces, and notify Party B accordingly.

5.3 Party B shall ensure the services it provides are free from any severe hazard in impairing, by itself or by other users, the Mobile Communication Network, Data Service Platform or other user interests.

5.4 Party B shall abide by the application telecom and Internet information regulations, rules and policies, Party B shall ensure that its information service contents are compliant with government laws, regulations and policies, and shall not distribute the illegal information of 9 categories listed in Security Guarantee Agreement for Information Source Networking (as set out in Exhibit 5).

5.5 Party B shall settle any dispute arising out of the security and legality of the contents in the information services.

5.6 In case of any economic loss of Party A's business arising out of the violation of the clause 5.4 by Party B, Party B shall indemnify Party A against the loss. In case of any negative impact of Party A arising out of the violation of the clause 5.4 by Party B, Party B shall announce its liability in it and publicly apologize to Party A.

5.7 Party B shall ensure that its traffic to Party A's Communication Platform shall not impair the safe load of the network. Party A is entitled to restrict any transmission of abnormal overload data or information traffic that may threat the normal operation of Party A's network.

Chapter VI Billing and Settlement

6.1 The Communication Premium and Information Service Premium are collected by Party A, Party B shall not collect any user premium. The billing and settlement of the Mobile Data Service is provided for in Exhibit 1.

6.2 Party A shall own the Communication Premium for use of Party A's Mobile Communication Network by the User or Party B.

6.3 The parties shall share the Information Service Premium in the mobile data services provided by Party B. Party A shares the premium because it provides the following services: mobile communication network user resources, service platforms, service tests, quality monitoring services, uniform user services and marketing, collection of information premium, and/or billing services.

6.4 In case the User refuses to pay Information Service Premium due to the poor services of Party B, Party B shall still pay to Party A the agreed proportion of the Information Service Premium of the User to Party A as set out in Exhibit 1 hereto in addition to the Communication Premium for the use of Party A's Mobile Communication Network.

6.5 Party B shall furnish Party A with the list of Information Service Premium in the format required by Party A. In case of failure of Party B to provide the list as scheduled and formatted, Party A shall not collect the Information Service Fee accordingly, in which case, Party B shall still pay to Party A the Communication Premium and the agreed proportion of the Information Service Premium as set out hereunder.

6.6 Party B shall furnish formal invoices to Party A upon or after the settlement of the Information Service Premium.

6.7 Party A shall pay to Party B all due Information Service Premium in the time and manner agreed mutually.

Chapter VII IPR and Confidentiality

7.1 The issues of copyright, trademark ownership, patent rights and other intellectual property rights in the term of this Agreement shall follow the applicable laws and regulations. Party B shall execute necessary authorization/license agreements with IPR owners/right owners or their agents according to applicable laws and regulations, to ensure that its content shall not infringe the legal rights of any IPR owners and right owners, and shall provide such authorization/license documents as requested by Party A. Party A shall not be liable for any IPR dispute between Party B and any third party.

7.2 Party B shall settle any dispute arising out of the security and legality of the information services provided by Party B. Party B promises and guarantees that the information services it provides shall not infringe any IPR or civil rights of any third party. Party B further promises to be held liable for indemnification against any lawsuit, claim, administrative penalty, loss and damage arising out of the default of above promises and guarantees.

7.3 The parties shall keep the confidentiality of this cooperation and this Agreement. Without prior written consent of the other party, neither party shall disclose to any third party of the provisions and relevant information about this Agreement.

7.4 During the term of this Agreement and within two (2) years after the termination, neither party shall disclose, inform or notify any third party of the trade secrets (including financial secrets), technical secrets, business know-how and/or other confidential information and data of the other party (regardless those in oral form or written form or any other form).

7.5 During the term of this Agreement and within two (2) years after the termination, the parties shall keep the confidentiality of the undividable trade secrets (including financial secrets), technical secrets, business know-how and/or other confidential information and data of the other party (regardless those in oral form or written form or any other form) jointly created by the parties for the performance of this Agreement. Without the consent of the other party, neither party shall disclose, inform or notify any third party of the above information.

Chapter VIII Default and Dispute

8.1 The parties shall strictly abide by this Agreement. Failure of either party to perform the obligations, promises or guarantees, or honor the representations hereunder, which impairs the interests of the other party or result in failure to continue the cooperation, shall be deemed as default.

8.2 In case the default of one party results in negative social impact or economic loss, the conforming party is entitled to claim from the default party to eliminate the negative impact, indemnify the economic loss, or even terminate this Agreement.

8.3 The parties shall settle any dispute or conflict arising out of the performance of this Agreement in a friendly, cooperative and sincere manner.

8.4 The parties agree that any dispute arising out of or in connection with this Agreement failing friendly consultation shall be submitted to Beijing Arbitration Committee for arbitration according to its rules. The arbitration award is final and binding upon the parties. The arbitration is in Chinese.

8.5 The execution, performance and interpretation of this Agreement shall be governed by the applicable laws and regulations of PRC.

Chapter IX Force Majeure

9.1 Force majeure refers to any uncontrollable and unpredictable event, or those predictable events that will uncontrollably prevent partial or full performance of this Agreement. The force majeure events include earthquake, land collapse, sinking, flood, typhoon, natural disaster and other Acts of God, flood, explosion, accident, war, riot, uprising, military riot, social disturbance, terrorist attacks, disruptions or other similar or non-similar contingent accidents.

9.2 Neither party shall be liable to the loss of the other party arising out of the failure of one party to perform the obligations hereunder due to the force majeure events.

9.3 The affected party shall forthwith notify the other party of the force majeure event, and furnish the valid evidencing documents issued by local government authorities stating the details and the causes for partial failure or complete failure to perform this Agreement or postpone the performance of this Agreement within fifteen (15) days thereafter. The parties shall determine to postpone the performance or terminate this Agreement according to the impact severity via consultation.

Chapter X Amendment or Termination

10.1 During the term of this cooperation, the regulations of mobile data services or relevant user service regulations formulated by Party A from time to time shall serve as the supplement of this Agreement. In case of any discrepancy between the above regulations and this Agreement, the above regulations shall prevail. The parties may execute amendment as to the conflicting provisions via consultation.

10.2 The party intending to change or modify this Agreement shall notify the other party fifteen (15) days in advance in writing. The parties shall change or modify this Agreement in writing via consultation.

10.3 In case one party fails to perform the obligations and responsibilities hereunder or materially violates this Agreement, which results in the other party's failure to continue or further the value-added mobile data service cooperation hereunder, it is deemed as unilateral termination of this Agreement by the default party, in which case the conforming party is entitled to claim from the other party for the economic loss thus incurred, and terminate this Agreement.

10.4 Upon termination of the business of Party B for any reason, Party B shall notify Party A at least one (1) month in advance, and allow the discontinuance grace period from 1 to 3 months, during which Party B shall continue to provide user services, and post the service discontinuance announcement of at least 90 days on its Website (Web/WAP) or via other channels.

Chapter XI Effectiveness and Miscellaneous

11.1 This Agreement shall take effect upon the signature or stamping by the duly authorized representatives of the Parties with the validity term of one (1) year. This Agreement shall be automatically renewed without objection of any party upon the expiry.

11.2 This Agreement is in four (4) copies of equal validity with each party holding two (2) copies.

11.3 All exhibits hereto are an integral part of this Agreement with equal validity.

11.4 Contacts of the parties:

Party A: Name:

Tel:

Fax:

Email:

Party B: Name: Zhao Boxin

Tel: 65102160-6618

Fax: 65102583

Email: boxinzhao@sohu-inc.com

Signature Page

Party A: China Unicom Co., Ltd

Representative:

Date:

Party B: Beijing Sohu Online Network Information Service Co., Ltd

Representative:

Date: March 25, 2003

Exhibit 1 Billing and Settlement

I. Party B shall fill out the entry of due information service premium to be collected by Party A in each item of information to be transmitted in accordance with the format of Party A.

II. Short-message service premium standard

1. Communication premium

a) China Unicom shall determine and collect the communication premium from the users;

b) Upon the successful receipt of the required information by users in such services as information request and inquiry via MP, each uplink message communication premium is RMB 0.05 yuan, and that of each downlink message is RMB 0.05 yuan.

c) For customized services and requested services by Internet users, upon the successful receipt of the information, the communication premium of each downlink message is RMB 0.05 yuan.

d) Point-to-point services (i.e. MP-to-MP short message services), upon the successful sending, the caller shall be charged at RMB 0.1 yuan/message;

e) No communication premium is applicable to system feedback information generated in users' use of the mobile data services.

For instance, there will be no uplink/downlink communication premium to system confirmation of successful user operation, such system feedbacks as system failure or failing user operation, etc.

2. Information services premium

a) In general, Party B shall determine the pricing of the information services premium for application upon approval of Party A.

b) The caller will be charged of information services premium upon successful receipt by the receiving user;

c) There is upper threshold to the information services premium of Party B.

The maximum RMB 2 yuan/message for message-based payment;

The maximum RMB 30 yuan/month for monthly payment.

For monthly information services, the user canceling the customized services within fifteen (15) days from the commencing date shall be charged 50% of the monthly premium, and those canceling the customized services after fifteen (15) days (inclusive) from the commencing date shall be charged 100% monthly premium.

The service premium (information service premium) hereunder is set out in Exhibit 2 hereto.

III. PUSH special service premium

(1) Users are free of communication premium and information premium.

(2) Party B shall pay to Party A the downlink communication premium for PUSH services at RMB 0.05 yuan/message.

(3) Party B can only distribute business-related information, and shall not send ads and other commercial information to users without the consent of Party A.

IV. Profit-sharing model of the parties

The communication premium is vested to Party A, and the information service premium, net of the 4% business tax and 8% bad debt, shall be shared by the parties in the agreed proportion as follows:

(1) Profit base: all due information service premium (net of the 4% business tax and 8% bad debt);

(2) During the first three (3) months of the cooperation, Party A shall take 20% of the profit base with Party B taking the remaining 80%. In case the monthly business of Party B in one of the first 3 months exceeds 10 million messages (inclusive), then Party A will take 10% of the profit base with Party B taking the remaining 90% at that month.

(3) From the first day of the first month of the 3-month period, the parties shall implement the following profit-sharing ratio based on the monthly business volume:

Unit: 10,000 messages/month

	Level 1	**Level 2**	**Level 3**	**Level 4**
Business volume	³1000	³500	³100	<100
Profit-sharing rate of Party A	10%	20%	30%	40%
Profit-sharing rate of Party B	90%	80%	70%	60%

Note: The above business volume is calculated as per the actual messages (including service at request and monthly service), exclusive of the PUSH services initiated by Party B.

V. Capital settlement of the parties

1. In principle, the parties shall settle their accounts monthly;

2. The parties shall check the last-month data of information service premium from the 10th day to the 20th day each month, and settle the month-preceding-last-month information service fee from the 25th day to 28th day each month. That is to say, the current-month information service premium shall be checked the second month and settled the third month.

3. The message records for successful billing furnished by Party A to Party B shall apply to the information service premium collected by Party A for Party B.

4. In case that the gap of the statistical data of information service premium between the parties is not over 5%, the data of Party A shall prevail. In case of the gap over 5%, the parties shall re-check the statistical data of information service premium, and settle the gap reasonably.

VI. Others

1. Party B shall inform users of the items of messages sent by Party B.

2. For Internet group-calling service, the caller shall be charged as per the receiving numbers and the premium standards with each group calling numbers not over 2 numbers.

Exhibit 2 Mobile Data Value-added Services and Pricing Standards

I. **Service categories:** ☐Short message ☐Mobile Internet ☐Download ☐Position

Access mode: ☐Internet ☐Dedicated line ☐Intranet

Access place:

Service commencing date:

II. **Customer service telephone of Party B: 8601-87710088**

III. **Customer service principal of Party B: Zheng Xin**

IV. **Website of Party B to provide mobile data services: sms.sohu.com**

V. **Service contents and premium standards**

(I) ☐ **[Service 1] ;**

(II) ☐ **[Service 2] ;**

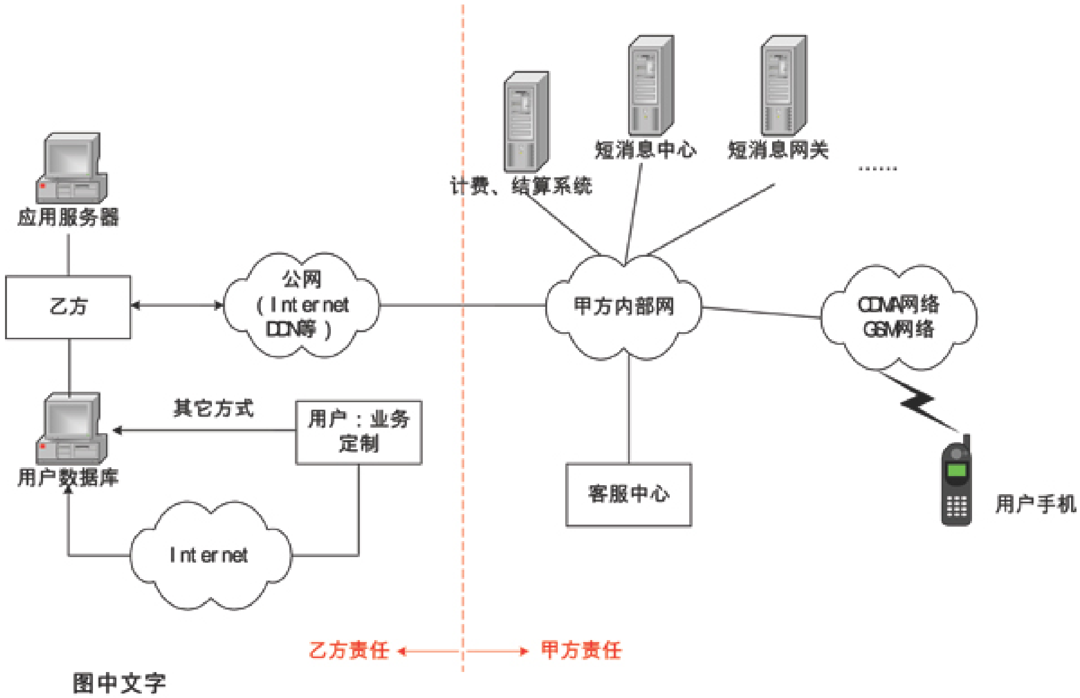
(III) ☐ **[Service 3] ;**

Exhibit 3 Services Provided by Party B to Users

[It is recommended for Party B to formulate the service list to be approved by Party A]

Exhibit 4: Maintenance Interfaces and Responsibilities

I. Sketch of maintenance interfaces



图中文字

应用服务器	Application server
计费、结算系统	Billing and settlement system
短消息中心	Short message center
短消息网关	Short message gateway
乙方	Party B
公网（internet DDN等）	Public net (internet DDN)
甲方内部网	Intranet of party A
CDMA网络　GSM网络	CDMA net　GSM net
其它方式	Other ways
用户数据库	User's data server
用户：业务定制	User：customization
客服中心	Customer service center
用户手机	User's mobile
甲方责任	Party A's obligation
乙方责任	Party B's obligation

Figure 1: Sketch of Maintenance Interfaces

II. Maintenance responsibilities of the parties

(I) Party A's responsibilities

1. Party A shall supply the mobile data network and software/hardware for the data service platform.

2. Party A shall coordinate with Party B for connecting the communication lines from the gateways or the servers of Party A to the servers of Party B.

3. Party A shall open the technical protocol standards and interface standards related to the data services to Party B.

4. Party A shall ensure the normal network communication within its responsibility scope, and undertake the troubleshooting for the network failures not attributable to Party B. Party A is entitled to restrict any transmission of abnormal overload data or information traffic that may threat the normal operation of Party A’s network.

5. Party A shall furnish the traffic statistic data of the communication channels used by Party B, and ensure the promptness and reliability of such data.

6. Party A shall promptly notify Party B of any communication interruption arising out of gateway or other network equipment commissioning, maintenance or other predictable causes, stating the interruption reasons, duration and frequency.

7. Party A shall promptly notify Party B in reasonable advance of any pending traffic interruption arising out of unpredictable reasons including gateway failures or other network failures.

(II) Party B’s responsibilities

1. Party B shall undertake the building and maintenance of its “application service” system, including all relevant hardware, system commissioning, cut-over, system maintenance, routine business management and marketing effort/cost.

2. Party B shall ensure the interconnection of gateways/servers of Party A with Party B’s systems, and undertake the application, lease and maintenance cost of relevant communication lines.

3. Party B shall undertake the gathering, editing, review and production of the information it provides, ensure the promptness, reliability and legality of such information, and bear corresponding responsibilities.

4. Party B shall guarantee to arrange the system commissioning, cutover and system maintenance at relevant idle hours of Party A with user-impacting operations at midnight. Party B shall ensure the above operations will not impair the normal network operation of Party A, and be liable to the network system failures of Party A thus incurred.

5. Party B shall notify Party A of any system commissioning, cutover and system modification in advance in writing, and inform the users via emails, ads or short messages upon approval of Party A in an effort to reduce the impact on users to the minimum.

6. Party B shall submit to Party A's arrangement of traffic volume upon emergencies to ensure normal data services during the cooperation term.

7. Party B shall promise not to create any overload traffic endangering network security when transmitting data and information to the mobile communication network and data service platform of Party A.

8. Party B shall provide 7*24 hours system maintenance.

Exhibit 5: Security Guarantee Agreement for Information Source Networking

Information source suppliers (CP/SP hereunder) linking with the mobile communication network, UNINET or relevant service platforms of China Unicom (including but not limited to short-message gateway, WAP gateway, JAVA/BREW download server, positioning service servers and etc) shall abide by the following regulations:

Article 1 Submit to applicable government laws, regulations and rules, strictly implement the information security regulations.

Article 2 Not engaged in illegal acts endangering the national security and disclosing national secrets via the mobile communication network, UNINET or relevant business platforms of China Unicom, not engaged in making, searching, browsing, replication and distribution of any information violating the constitution and laws, impairing social security, national unification, damaging national unity and involving sex and violence via the mobile communication network, UNINET or relevant business platforms of China Unicom, not engaged in distributing any of the following information via the mobile communication network, UNINET or relevant business platforms of China Unicom:

1. Violate basic principles of the Constitution;
2. Endanger the national security, disclose national secrets, overturn the competent government and damage the national unification;
3. Impair the national honor and interests;
4. Stir up the national hatred, national discrimination and damage national unity;
5. Breach national religion policy, publicize evil religions and feudal superstition;
6. Distribute rumors, destroy social order and damage social stability;
7. Distribute obscene, erotic, gambling, violence, murder, horrific or crime-abetting information;
8. Insult or defaming others, infringe others' legal rights;
9. Other contents prohibited by laws and regulations.

The information supplier shall prevent any above illegal acts and negative information promptly and report to competent authorities.

Article 3 The information supplier shall provide information according to the applicable IPR laws and policies of China.

Article 4 The information supplier shall ensure the security and reliability of the service contents during the integrated network test, trial operation and formal operation without impairment on the mobile communication network, UNINET or relevant business platforms of China Unicom.

Article 5 The information supplier shall establish effective information confidentiality regulations and technical measures subject to the management, supervision and inspection of relevant competent authorities.

Article 6 Upon any violation of the above provisions, China Unicom shall take necessary measures to shut down the channels linking the corresponding information source, and terminate cooperation with severe violators, and reserve the right to claim against the legal liability of the liable party. This agreement shall take effect upon the execution of the information supplier and be kept by China Unicom.

Information supplier: Beijing Sohu Online Network Information Service Co., Ltd

Principal (signature and seal): Zhang Chaoyang

Date: March 25, 2003

Exhibit 10.3

Monternet Short-messaging Service Cooperation Agreement

Agreement code:

Execution date:

Party A: China Mobile (Beijing) Co., Ltd

Legal representative: Sha Yuejia

Mail address: No. 58, Dong Zhong Street, Dongcheng District, Beijing, 100027, China

Tel: 65546699

Fax: 65541330

Opening bank:

Bank account:

Party B: Beijing Sohu Online Network Information Services Limited

Legal representative: Zhang Chaoyang

Mail address: 15/F ,Tower 2, Bright China Chang An Bldg, 7 Jianguomen Nei Ave., Dongcheng District, Beijing, 100005, China

Tel: 65102160

Fax: 65102583

Opening bank:

Bank account:

China Mobile (Beijing) Co., Ltd (hereinafter referred to as “Party A”), as the mobile communication operator and mobile data service operator, provides open and premium-based communication channels for the application providers. Beijing Sohu Online IT Service Co., Ltd (hereinafter referred to as “Party B”), as a company engaged in the value-added communication services approved by the competent telecom authorities, provides value-added short-message services to MP users of China Mobile. To provide better application services to users, the parties agree as follows as to the joint development of Monternet short-message services upon adequate consultation in the principle of equality, mutual benefit and concerted growth.

I. Basic Description of Cooperation

1. Fundamental conditions

1) Party B shall be fully compliant with the requirement of *Internet Content/Application Service Management Methods* of the State Council Order (No 292), be authorized for the qualification of the Internet information service business, be able to provide comprehensive after service system, and have legal and reliable information/message sources and other legal business operation conditions.

2) In case Party B is the local partner of Party A, Party B shall provide Monternet short-message services only to China Mobile MP users in Beijing region via the short-message channels of Party A.

3) Party B shall promptly provide detailed business plans and marketing plans in writing to Party A.

4) Party A shall make regular examination and management to Party B according to the business regulations of Monternet, and terminate the cooperation with Party B upon failure of Party B to pass such examination.

II. Rights and Obligations

1. Party A's rights and obligations

1) Party A allows Party B to provide short-message value-added services to users via the short-message gateway of Party A. Party A is entitled to adjust the short-message traffic volume according to the capacity of the short-message center. If such adjustment shall impact on the business of Party B, Party A shall promptly notify Party B thereof.

2) Party A shall provide comprehensive GSM mobile communication system, and ensure smooth and stable information transmission. Upon the notification of Party B of any communication failure, Party A shall promptly settle the failure to avoid impairment of Party B's business.

3) Party A shall open the technical protocol, standard and interface standard relevant to the short-message gateway platform to Party B. Party A shall provide the technical documentation for mutual communication, and promptly address communication problems of Party B.

4) Party A shall supply the hardware/software system for the short-message platform, and bear the relevant operation cost.

5) Party A shall renovate its own billing system, including the commission-based collection system of the banks, and bear the cost of necessary hardware and software.

6) Party A shall undertake the billing and payment collection on behalf of Party B. Party A is entitled to check the business of Party B to ensure the accurate billing data. Party A shall issue explicit information premium invoice to users and the information premium bill at the request of the user.

7) When applicable, Party A shall provide the relevant data of Monternet invalid users (number canceling, service discontinuance and overdue information premium) to Party B to facilitate Party B to dispose of such invalid Monternet users promptly.

8) The parties shall make joint marketing and promotion.

2. Party B's rights and obligations

1) Party B shall undertake the building and maintenance of its own software and hardware, including but not limited to all hardware, system commissioning, cutover, system maintenance, routine business management and marketing efforts/cost of the subject project.

2) Party B shall provide the agreed contents and application services to China Mobile users. Party B shall ensure the legal, prompt and reliable information sources. Party B shall guarantee that its information and content are compliant with applicable policies, laws and regulations, and be liable for any consequence arising out of illegal contents.

3) Party B's Website with customization interface for users is sms.sohu.com to inform users of the contents and service provided by Party B. The customization interface of Party B shall provide basic service functions like authentication, adding, deleting, modifying and searching, and allow users to inquire about the information premium list. Party B shall provide explicit premium standards to users with the premium standard changing frequency not less than 6 months. That is to say, the premium standard of a service (new service or changed service) shall not be changed within the first 6 months. Party B shall keep complete use records of all users of at least 3 months, keep the user ordering data permanently, and provide the interface to Party A to inquire about the service records.

4) Party B shall take necessary measures to effectively control invalid Monternet users. To ensure normal operation of Monternet business, Party B shall not send any information to invalid Monternet users it get to know.

5) In case the system failure of Party B impairs the communication system of Party A, Party B shall submit to the adjustment arrangement of Party A to the short-message traffic volume to ensure normal and stable short-message service, and settle any user complaint thus incurred at its own cost.

6) Party B shall not send ads and other irrelevant information to users via the communication channels of Party A during the term of this agreement. Party B shall strengthen the check of the short-message contents, restrict the group-calling numbers (at most 2 each time) and sending times in each time unit (not over 100 each hour). Party B shall take technical measures against illegal attack, unauthorized use of passwords, unauthorized convoking of web pages and other

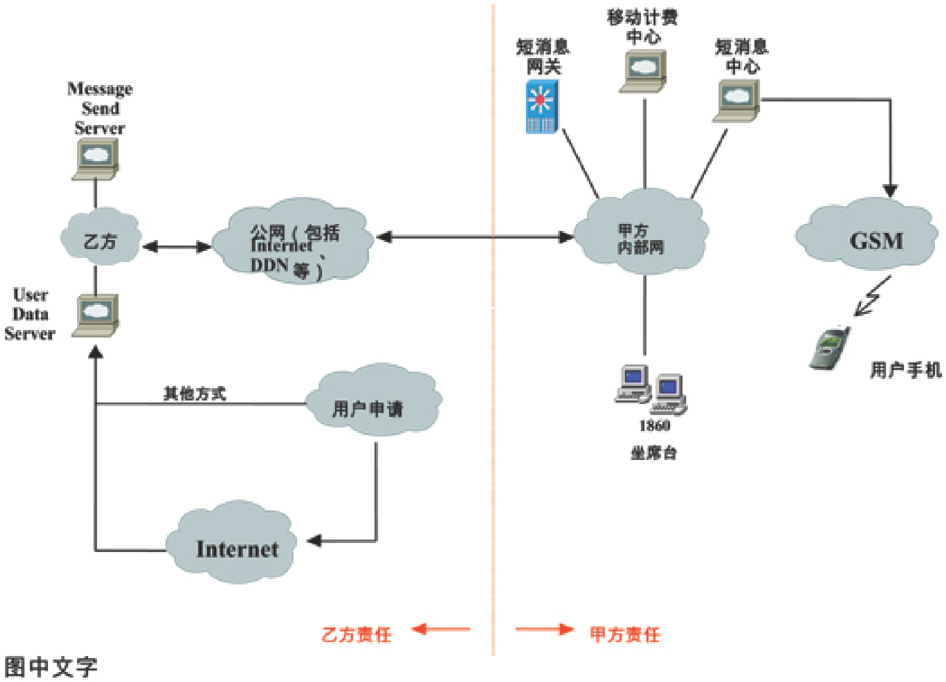
illegal acts impairing Monternet business information security.

7) During the term of this Agreement, Party B is obligated to furnish the monthly report within the first 5 days each month as requested by Party A to Party A, stating the user development, user categories, user habits, business forecast and others, the monthly report format as set out in Exhibit 1 hereto. Party A shall keep the confidentiality of such data according to Article 8 hereto.

8) The parties shall undertake joint marketing and promotion.

III. Distribution of Rights and Obligations

1. Party B shall address the user disputes arising out of contents, services or transmission failure between the parties. Party A shall address the user disputes arising out of the short-message gateway and center, with the maintenance labor-division as follows:



图中文字

短消息网关	Short message gateway
移动计费中心	Mobile changing center
短消息中心	Short message center
乙方	Party B
公网（包括internet DDN等）	Public net (including internet、DDN)
甲方内部网	Intranet of party A
其它方式	Other ways
用户申请	User application
坐席台	Customer service center
用户手机	User's mobile
甲方责任	Party A's obligation
乙方责任	Party B's obligation

2. The contents or applications provided by Party B shall be within the business scope mutually agreed, otherwise Party A is entitled to terminate this Agreement with Party B liable to the default penalty. Party A is entitled to supervise the business development of Party B, Party B shall assist the efforts of Party A in this regard in an effort to avoid negative impact on normal business of Party A by the business of Party B. In case the business development of Party B negatively impairs the normal business of Party A due to the violation against this Agreement, Party A is entitled to terminate this Agreement with Party B liable for the default liability.

3. Party B shall notify Party A in writing prior to adding or withdrawing any services hereunder or changing the price of some services. In case of agreeing with the change of certain service prices, Party A shall notify Party B in writing. In case of Party A's written consent of adding certain services by Party B, Party B shall test the added services with regular test reports submitted to Party A, and shall not provide such new services to users without the acceptance of the sophistication of such services by Party A, details refer to Exhibit 2 hereto.

Revenues of the Parties

1. Party A shall charge the communication premium at RMB 0.10 yuan/message for the short-message services hereunder. In principle, Party B shall determine the information service premium for the services hereunder used by the MP users subject to the approval of China Mobile Corporation. Party A suggests the upper threshold of the information service premium (maximum RMB 2 yuan/message, RMB 30 yuan/month for monthly services). Party B shall submit the premium standards to the price administration authorities, and promptly notify Party A accordingly.

2. Party A shall provide the billing service and premium collection service to Party B. All information service premium of Beijing region users of each billing month shall be the due information service premium in Beijing. Party A shall pay 85% of the due information service premium of Beijing to Party B, and be liable to the risk of overdue payment of local users. In case Party B is the full-network partner of Party A, i.e. Party B provide Monternet short-message value-added services to nationwide China Mobile users in China, then all information service premium of non-Beijing users recorded in each billing month shall be the due information service premium of non-Beijing regions, which shall be collected by local subsidiaries of China Mobile. Relevant local subsidiaries of China Mobile will credit 85% local due information service premium to Party A, which shall then be transferred to Party B by Party A in full.

3. In case the monthly short-message entries (downlink) sent by Party B to nationwide users as recorded in the gateway billing data exceeds those sent by users to Party B (uplink), thus resulting in ill-balanced communication premium of Party B (the balance of downlink messages and uplink messages is the ill-balance communication), Party A shall charge RMB 0.05-0.10 yuan/message for the ill-balance communication as follows:

Ill-balanced downlink SM traffic (messages/month)	Premium standard (RMB yuan/message)	Calculation methods X=(MT-MO) message/month
Below 100,000	0.08	X*0.08, at least RMB 2000 yuan
100,000-300,000	0.07	(X-100,000)*0.07+100,000*0.08
300,000-1 million	0.06	(X-300,000)*0.06+200,000*0.07+100,000*0.08
Over 1 million	0.05	(X-1 million)*0.05+700,000*0.06+200,000*0.07+100,000*0.08

IV. Settlement Model

1. Settlement point: determined by Party A.

2. Settlement methods

1) Party B shall link with the short-message center of Party A via the short-message gateway of Party A, which shall record the billing data as final. The monthly settlement from the 15th day to the 20th day each month shall cover the premium of the last month from the 1st day to the last day. After the normal billing accounting period, Party A shall calculate the current-month information service premium of Party B and the ill-balance communication premium payable to Party A, which shall serve as the basis of settlement between the parties.

2) The parties shall make the account settlement of the current-month information service premium according to the records of the billing system of Party A, Party A shall pay the balance of 80% information service premium minus the ill-balance communication against the formal service invoices. In case the balance is below zero, Party B shall pay the balance to Party A against the invoices furnished by Party A. The payment collecting party shall mail the invoice within three (3) days after the receipt of the payment (by local post stamp).

3) The parties shall make the settlement and payment strictly according to the regulations of settlement model and schedule. In case either party delays the due payment beyond the stipulated time (the 20th day each month), the party shall pay to the other party the delay penalty at the daily rate of 0.1% of the delayed payment. In case either party fails to make payment overdue for over 2 months after the notice of the other party, the conforming party is entitled to lodge an action against the default party with the legal liability borne by the default party.

V. Marketing and Promotion

1. The parties shall engage in joint marketing and promotion with their respective resources in the principle of mutual benefit.

2. Party A in general shall market/promote Monternet and the major categories of application services instead of the cooperative Monternet services separately.

3. Party B shall market/promote its brand and relevant Monternet services as well as the brand of Monternet. Party B shall strictly abide by the brand/marks regulations of Party A in use of Monternet LOGO without unauthorized distortion or color change with prior approval of Party A prior to any use thereof.

4. Party B shall not use Monternet brand for any purpose other than the marketing/promotion of Monternet services, otherwise Party A is entitled to require Party B to stop the use thereof and bear any liability thus incurred, or even claim the legal liability for severe violations.

5. Party B must obviously mark the customer service phone or customer service Website, compliant email on any promotional material and media ads. of Monternet business. Party B shall not adopt the similar products of China Mobile rivals as the promotional gifts of Monternet business.

VI. Customer Services

1. The Monternet short messages received by users must be those upon their request or customization. Party B shall ensure the wholesomeness and legality of the short messages sent to users, Party A is entitled to supervise the short message contents of Party B, and strengthen the management thereof, specific regulations as provided for in Exhibit 3.

2. Party B shall fully inform users of the basic elements of Monternet services prior to any ordering, including price, sending frequency/times, use model, major contents and etc.

3. Party A shall process the customer inquiries and complaints arising out of the communication network problems.

4. Party A’s customer service center 1860 and the major outlets will handle the customer inquiries and complaints about Monternet services, and transfer any customer problem about information content and services to the customer service center of Party B.

5. Party B shall keep 24*7 hotline, and inform users thereabout in the Web pages or marketing.

6. Party B shall assign regular staff to handle user complaints, and respond to customer complaint within one (1) day thereafter.

7. To ensure the user understanding of Party B’s services, Party B must process the service recommendations, customer service instructions and the downlink information of user passwords free of charge, and send the service prompt information (e.g. price, customization confirmation, customer service hotline, order rejection and etc) free of information service premium.

8. For monthly-payment short-message services, Party B may charge the monthly premium at the user for the use of the service between half a month to a month, and charge no premium at the user for the use of the service below half a month.

9. For users in request of customized services via Internet, Party B shall obviously mark the basic business information on the Web page prior to the user confirmation of the customization. After successful customization, Party B shall send the prompt information to users, stating “thanks to you”, “successful confirmation of the customization”, “service information premium standard”, “sending frequency/times”, “order withdrawal method”, “customer service phone/Website”.

10. For users of customized services via mobile phones, Party B shall return the prompt information via short message to the users (including premium users and third-party users) immediately, stating “thanks to you”, “successful confirmation of the customization”, “service information premium standard”, “sending frequency/times”, “order withdrawal method”, “customer service phone”, “Website” (optional).

11. To the initial ordering intentions acquired in the non-online marketing (e.g. filling out forms), Party B shall send the second confirmation message (basic service information), and confirm the actual order after user confirmation of the password.

VII. Termination

1. Party B shall not send any information to invalid Monternet users. In case Party B knowingly send information to invalid Monternet users, Party A is entitled to require Party B to indemnify the economic loss incurred from user overdue payment, and is entitled to terminate this Agreement and the cooperation hereunder.

2. Party B is obligated to ensure the compliance of its information content with Telecom Regulations of PRC, Internet Information Service Regulations and other applicable laws, regulations and policies, not distribute any illegal and obscene information undermining the national security and interest, Party B shall ensure that its information content shall not impair the corporate image of China Mobile. Without written consent of Party A, Party B shall not send ads and other irrelevant information to mobile users via the short-message ports furnished by Party A. Otherwise, Party B shall indemnify Party A for any loss thus incurred, and Party A is entitled to terminate this Agreement and the cooperation hereunder.

3. Upon the receipt of user complaint for receiving any un-requested message from Party B, Party A shall notify Party B accordingly, and Party B shall investigate the reasons. In this case, Party A shall not charge user any premium, and return any premium collected back to the users, and Party A is entitled to terminate this Agreement and the cooperation hereunder according to the current-month severity of customer complaints.

4. To ensure the normal marketing of Monternet services, Party B shall not directly or indirectly provide cross-operator short-message services, including domestic cross-operator short-message services and international short-message services, and shall not carry out commission-based premium collection services via the short-message system of Party A. Otherwise, Party B shall indemnify Party A for any loss thus incurred, and Party A is entitled to terminate this Agreement and the cooperation hereunder.

5. In case Party A transfers customer complaints to Party B, Party B shall initially respond to the customer service department of Party A within two (2) hours, and investigate the reasons/handle the complaint within one (1) working day. Party A is entitled to deduct RMB 500 yuan per each customer complaint from the current-month due payment to Party B as the default penalty, and Party A is entitled to terminate this Agreement and the cooperation hereunder according to the default severity.

VIII. Confidentiality

1. Proprietary Information refers to any valuable information developed, created, found or disclosed to the receiving party by the disclosing party. Proprietary Information includes but not limited to the trade secrets, intellectual property rights (IPR) and technical secrets.

2. The parties shall protect the IPR and other Proprietary Information among other trade secrets of its own and the other party. Without written consent of the other party, either party shall keep the confidentiality of the Proprietary Information of the other party, and shall not disclose any Proprietary Information involving with the trade secrets and technical secrets of the other party to any third party.

3. The parties shall keep the confidentiality of this cooperation and this Agreement. Without prior written consent of the other party, either party shall disclose the details of the cooperation and this Agreement to any third party.

IX. Default Liability

Failure of either party to perform any provision hereunder shall be deemed as default. Upon receipt of the other party's written notice of the default, the default party, if confirming the default, shall correct the default within twenty (20) days thereafter with written notice to the other party. It the notified party denies the default, it shall inform the other party thereof within twenty (20) days or sate the reasons therefor. In this case, the parties shall settle the dispute via consultation, or resort to the dispute settlement provisions hereunder for any dispute failing friendly consultation, the default party shall be liable for the loss thus incurred to the conforming party.

X. Liability Limitation

In case both party or either party fails to perform, partly or as a whole, the obligations hereunder due to force majeure event, neither party shall be held liable for the default liability. However, the affected party or the parties shall notify the other party within fifteen (15) days thereafter and furnish relevant supporting evidence. Either party or both parties shall resume the performance of this Agreement after the elimination of the force majeure.

XI. Dispute Settlement

The parties may settle the dispute arising out of the performance hereunder via friendly consultation. Either party may submit the dispute failing friendly consultation to Beijing

Arbitration Committee for arbitration according to its rules. The arbitration award is final and binding upon the parties.

XII. Effectiveness, Modification, Termination and Renewal of Agreement

1. This Agreement shall take effect from May 1, 2003, and expire upon October 31, 2003. In case the parties do not terminate this Agreement upon the expiration, this Agreement shall automatically renew for another 6 months. The party rejecting the renewal shall notify the other party thirty (30) days in advance of the expiration in writing thereabout.

2. This Agreement, 14 pages, is made in six (6) copies with each party holding three (3) copies of equal validity. It shall take effect upon execution and stamp of the duly authorized representatives of the parties.

3. The exhibits hereto constitute an integral part of this Agreement with equal legal validity.

4. During the term of this Agreement, the parties may modify the provision hereunder or terminate this Agreement upon friendly consultation. Either party intending to change or modify this Agreement shall notify the other party in writing thirty (30) days in advance. The party unilaterally terminating this Agreement shall indemnify all loss thus incurred to the other party.

Party A (seal):	Party B (seal):
Representative: Xiang Wenjie	Representative: Que Hongyu

Exhibits: 1. Monthly statistic report of Monternet business

2. Procedures for adding new services

3. Regulations of Monternet short message contents

Exhibit 1: Monthly Statistic Report of Monternet Business

Table 1: Nationwide service based on short messages

S.N.	SP corporate code	SP name	New registered users	Current-month users	Current-month premium users	Short-message items
1						

Table 2: Local service based on short message

S.N.	SP corporate code	SP name	New registered users	Current-month users	Current-month premium users	Short-message items

Note:

1. New registered users: additional users logging on and registering via the service end of certain SP in the current month.
2. Current-month users: users in use of the short-message service of the SP at least once in the current month.
3. Current-month premium users: registered users in use of SP premium services in the current month.
4. Short-message items: all short messages sent and received to our gateway via the SP service end in the current month.
5. SP engaged in nationwide short-message services shall fill out table 1, and SP engaged in local short-message services should fill out table 2.

Exhibit 2 Procedures for Adding New Services

1. Party B shall report to Party A the new services within the first 5 days each month in the standard format, any services not reported during the period shall be automatically transferred to the next month.
2. Party A shall respond to the new service application of Party B within three (3) working days as to whether to allow test.
3. The test period of Party B is the first 25 days each month, Party B shall promptly submit the test reports to Party A, Party A shall check the test report and promptly respond to Party B. Party A shall not accept test reports submitted beyond the above period.
4. After the test, if the parties deem the test successful, Party A shall notify Party B within five (5) working days as to the formal cutover date. In case unsuccessful test, the test will be terminated, or Party B shall make another test in the next test period.

Remarks: future business management regulations of China Mobile will prevail.

Exhibit 3: Management Regulations of Monternet Short Message Contents

Chapter 1 General

Article 1 To ensure the wholesome development of China Mobile Monternet Program, safeguard the long-term interest of the operators and partners, and protect legal rights of all users, China Mobile (Beijing) Co., Ltd hereby promulgates the Management Regulations of Monternet Short Message Contents according to *Internet Information Management Regulations of China* and *Monternet Service Content Review/management Methods* of China Mobile.

Article 2 This Regulation shall make open and transparent supervision of the short message contents of all SPS providing Monternet services in the principle of fairness and equality.

Article 3 This Regulation is subject to amendment and supplement based on the market changes, which shall prevail over the original version.

Chapter 2 Requirements on Short Message Contents

Article 4 It is prohibited to make impolite and obscene personal attack to MP users of China Mobile via the short message words/languages in any manner.

Article 5 It is prohibited to undermine the image of China Mobile via the short message words/languages in any manner.

Article 6 It is prohibited to distribute obscene and indecent contents via the short message words/languages in any manner.

Article 7 It is prohibited to misguide user behaviors via the short message words/languages in any manner in an effort to cheat users and incur user loss.

Chapter 3 Examination Methods

Article 8 China Mobile (Beijing) will make irregular spot check of short message contents of SPs providing Monternet services.

Article 9 China Mobile (Beijing) will make regular survey to investigate the customer satisfaction of the short message contents of SPs.

Article 10 China Mobile (Beijing) customer service center 1860 will handle the customer complaint of the short message contents.

Chapter 4 Handling Method

Article 11 China Mobile (Beijing) will issue written warning to the SP for correction within three (3) days liable for prohibited short message contents.

Article 12 China Mobile (Beijing) will issue the second written warning for correction within three (3) days of any prohibited content.

Article 13 China Mobile (Beijing) will terminate contract with the SP failing to correct prohibited content after the second warning, and order correction within stipulated period based on the severity.

Article 14 For SPs liable for prohibited contents during multiple spot checks, frequency user complaints and failing prompt correction, China Mobile (Beijing) will terminate contract with them and order correction within stipulated period based on the severity.

Chapter 5 Supplement

Article 15 This Regulation shall be interpreted by Marketing Department of China Mobile (Beijing) Co., Ltd.

Article 16 This Regulation shall be enforced since the execution date (May 2001).

Exhibit 31.1

I, Dr. Charles Zhang, certify that:

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

Date: November 14, 2003

/s/ Dr. Charles Zhang

President, Chief Executive Officer and Chairman
of the Board of Directors

Exhibit 31.2

I, Derek Palaschuk, certify that:

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

Date: November 14, 2003

/s/ Derek Palaschuk
Chief Financial Officer & Senior Vice President

Exhibit 32.1

SOHU.COM INC.

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

In connection with the Quarterly Report of Sohu.com Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dr. Charles Zhang, President, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of September 30, 2003 and results of operations of the Company for the three and nine months ended September 30, 2003.

/s/ Dr. Charles Zhang

Dr. Charles Zhang, President, Chief Executive Officer and Chairman of the Board of Directors

November 14, 2003

Exhibit 32.2

SOHU.COM INC.

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

In connection with the Quarterly Report of Sohu.com Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Derek Palaschuk, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of September 30, 2003 and results of operations of the Company for the three and nine months ended September 30, 2003.

/s/ Derek Palaschuk

Derek Palaschuk, Senior Vice
President and Chief Financial Officer

November 14, 2003