

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

**FORM 8-K**

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

**Date of Report (Date of earliest event reported): February 6, 2006**

**SOHU.COM INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation)

**0-30961**  
(Commission File Number)

**98-0204667**  
(I.R.S. Employer  
Identification No.)

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

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On February 6, 2006, the registrant announced its unaudited financial results for the quarter and the year ended December 31, 2005. A copy of the press release issued by the registrant regarding the foregoing is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

In addition, on February 6, 2006 the registrant's management team hosted a conference call to discuss the earnings press release. A transcript of the call (excluding the question and answer portion of the call) is filed herewith as Exhibit 99.2 and is incorporated herein by reference.

**Safe Harbor Statement**

This current report on 8-K contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement.

Potential risks and uncertainties include, but are not limited to, our historical and possible future losses, limited operating history, uncertain regulatory landscape in the People's Republic of China, fluctuations in quarterly operating results, and the company's reliance on online advertising sales, wireless services (most wireless revenues are collected from a few mobile telecom operators), online games and e-commerce for its revenues. Further information regarding these and other risks is included in our Form 10-K for the year ended December 31, 2004, Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and in our other filings with the Securities and Exchange Commission.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

99.1 Press Release dated February 6, 2006

99.2 Transcript of earnings conference call (excluding question and answer portion)

SIGNATURES

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

DATED: February 8, 2006

SOHU.COM INC.

By: /s/ Carol Yu

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Carol Yu  
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated February 6, 2006
99.2	Transcript of earnings conference call (excluding question and answer portion)



*SOHU.COM REPORTS FOURTH QUARTER 2005 AND FISCAL YEAR 2005  
UNAUDITED FINANCIAL RESULTS*

Fiscal 2005 Revenues Reach Record US\$108.3 million with Fourth Quarter Revenues of US\$30.5 million;  
Fiscal 2005 Fully Diluted EPS of US\$0.77 and Fourth Quarter Fully Diluted EPS of US\$0.23

BEIJING, CHINA, February 6, 2006 – Sohu.com Inc. (NASDAQ: SOHU), China's leading online media, search and mobile value-added services company, today reported unaudited financial results for the fourth quarter and fiscal year ended December 31, 2005.

**Business Highlights**

***Highlights For Fourth Quarter 2005***

- Total revenues of US\$30.5 million, up 27% year-on-year and 8% quarter-on-quarter, a record quarter of revenues
- Advertising revenues of US\$20.3 million, up 28% year-on-year and 8% quarter-on-quarter, exceeding company guidance
- Non-advertising revenues of US\$10.2 million, exceeding company guidance, with wireless revenues showing steady improvement up 7% quarter-on-quarter
- U.S. GAAP net profit of US\$8.9 million or US\$0.23 per fully diluted share, exceeding company guidance

***Highlights For Fiscal 2005***

- Record total revenues of US\$108.3 million, up 5% year-on-year
- Advertising revenues increased 27% year-on-year to US\$70.9 million
- Fiscal 2005 U.S. GAAP net income of US\$29.8 million or US\$0.77 per fully diluted share
- Operating profit of US\$24.8 million with operating profit margin of 23%

Charles Zhang, Chairman and CEO of Sohu.com stated, "We had a very good quarter. We continued to execute on our core business initiatives of growing our online advertising business and developing our healthy sponsored search segment following our search product upgrade to Sogou 2.5. Our solid fourth quarter financial results,

which have exceeded company top and bottom line guidance during a seasonally weak quarter, demonstrate the strength and momentum in our business. Fiscal 2005 experienced a solid 27% year-on-year increase in advertising revenues supplemented by our steadily improving wireless business.”

## **Business Results**

Revenues for fourth quarter ended December 31, 2005 totaled US\$30.5 million, compared to revenues of US\$28.3 million for third quarter ended September 30, 2005, and US\$24.1 million for fourth quarter ended December 31, 2004. Gross margin of 66% in fourth quarter of 2005 was up slightly from 65% in the previous quarter and down slightly from 68% in the same period of 2004. Net income for fourth quarter of 2005 was US\$8.9 million or US\$0.23 per fully diluted share. This compares to net income of US\$8.0 million or US\$0.21 per fully diluted share for the previous quarter and US\$6.5 million or US\$0.17 per fully diluted share for fourth quarter of 2004.

Revenues for fiscal year 2005 totaled US\$108.3 million, a 5% year-on-year increase from fiscal year 2004. Gross margin was 66% in fiscal 2005, down slightly from 67% in fiscal 2004. U.S. GAAP net income in fiscal 2005 was US\$29.8 million or US\$0.77 per fully diluted share compared to net income of US\$35.6 million or US\$0.89 per fully diluted share in fiscal 2004.

Sohu’s advertising revenues for fourth quarter of 2005 totaled US\$20.3 million, a 28% year-on-year improvement and 8% increase quarter-on-quarter. Advertising revenues, consisting of US\$16.9 million in brand advertising and US\$3.4 million in sponsored search, accounted for 67% of total revenues in fourth quarter of 2005. Advertising gross margin was 74%, relatively stable from the previous quarter but lower than 81% in fourth quarter of 2004.

In fiscal 2005, Sohu’s advertising revenues totaled US\$70.9 million, up 27% from US\$55.7 million in fiscal 2004.

For fourth quarter of 2005, Sohu’s non-advertising revenues, which are derived mainly from wireless value-added services, online games and e-commerce, increased by 24% year-on-year and 7% quarter-on-quarter to US\$10.2 million, representing 33% of total revenues. The strong year-on-year improvement was a result of the continued recovery in wireless revenues after bottoming out in the fourth quarter 2004. Wireless revenues posted its fourth consecutive quarter of sequential growth, increasing 7% over third quarter and 55% over the same period last year. Non-advertising gross margin improved to 50% compared to 47% in previous quarter and 42% in fourth quarter of 2004.

In fiscal 2005, Sohu’s non-advertising revenues totaled US\$37.5 million, down 21% from US\$47.5 million in fiscal 2004 reflecting the shift in the revenue mix to favor the core advertising business.

For the fourth quarter, Sohu’s operating expenses totaled US\$14.2 million, increasing 25% from previous quarter and 37% year-on-year. The increase in expenses quarter-on-quarter primarily relates to costs associated with Sohu’s exclusive Olympics sponsorship role and additional sales commissions payable to our sales team totaling US\$1.4 million pertaining to higher collections as well as a change in the timing of when the commission is accrued.

For the fourth quarter of 2005, Sohu's other income totaled US\$2.4 million. This included a gain of US\$1.2 million arising from our repurchase of convertible notes with face value of US\$15.22 million at a discount. In addition, due to an exemption regarding payment of certain taxes and receipts of tax refunds by our China subsidiaries, we have also recorded approximately US\$1.2 million gain of other income.

As of December 31, 2005, Sohu's cash, cash equivalents and investments in marketable debt securities balance was US\$134.1 million, compared to US\$132.5 million and US\$141.3 million as of September 30, 2005 and December 31, 2004, respectively. During the year, the Company completed a US\$13.8 million stock repurchase program and the aforementioned repurchase of convertible notes.

Carol Yu, CFO of Sohu.com commented, "Although this is typically a slower season for advertising, we were still able to post another solid quarter of results. Our focus on growing our user base and maintaining our leadership position in online advertising in China continues to work well. We have taken full advantage of the rapid growth in online advertising in China which we believe is still in an early growth stage and have taken the necessary steps to ensure Sohu's Internet properties are well-positioned to benefit as more advertisers begin to value the importance of brand and search advertising in China as an effective tool to reach consumers."

#### **Olympic Sponsorship Update**

Sohu was chosen as official Internet Content Sponsor for the Beijing 2008 Olympic Games in November 2005 and has already begun providing its exclusive services to construct, operate and host the official website, [www.beijing2008.com](http://www.beijing2008.com), for the upcoming historic event.

"With Sohu's win of the Olympics sponsorship role, we have seen the continued strengthening of the Sohu brand via our expanding advertising revenue base. While we expect to see even more Sohu exclusive co-marketing and cross-selling opportunities come into effect as the Beijing 2008 Olympics approaches, we have already begun to see increased interest from Fortune 1000 advertisers. In fact, we have signed Olympic-related deals with well-known companies such as Lenovo and Audi China during the fourth quarter. Our experienced management team continues to focus on leveraging our core advertising strength and steadily growing our dynamic search business as we move closer to the Beijing 2008 Olympics," concluded Dr. Zhang.

#### **Business Outlook**

Sohu estimates total revenues for first quarter 2006 to be between US\$28.0 million to US\$30.0 million, with advertising revenues of US\$19.0 million to US\$20.0 million and non-advertising revenues of US\$9.0 million to US\$10.0 million.

Sohu estimates the stock-based compensation expense for the first quarter of 2006, due to the effect of adoption of Statement of Financial Accounting Standard 123R,

Share-Based Payment which requires the expensing of stock-based compensation expense, to be between US\$1.7 million to US\$1.8 million. In addition, starting from January 1, 2006, the applicable PRC income tax rate of Sohu has increased to 7.5%. Sohu estimates that the PRC income tax expense for the first quarter of 2006 to be between US\$0.5 million to US\$0.7 million. The estimated total impact of these two expenses is expected to reduce Sohu's fully diluted earnings per share for the first quarter of 2006 by US\$0.05 to US\$0.06.

After deducting the stock-based compensation expense and PRC income tax expense mentioned above, Sohu estimates fully diluted earnings per share for the first quarter of 2006, under US generally accepted accounting principles, to be between US\$0.14 and US\$0.16.

#### **Notes to Financial Information**

Financial information in this press release is extracted from Sohu's unaudited financial statements prepared in accordance with generally accepted accounting principles in the United States.

In previous periods, the Company had included all its website operating costs in cost of revenues of brand advertising. Beginning July 1, 2005, in order to improve the measurement of performance of each segment, the Company began allocating website operating cost to cost of revenues of each segment based on actual usage. Accordingly, the Company reclassified cost of revenues amongst each segment for previous periods presented to conform with current period classification.

#### **Safe Harbor Statement**

This announcement contains forward-looking statements. It is currently expected the Business Outlook will not be updated until release of Sohu's next quarterly earnings announcement; however, Sohu reserves right to update its Business Outlook at any time for any reason.

Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Potential risks and uncertainties include, but are not limited to, the uncertain regulatory landscape in the People's Republic of China, fluctuations in Sohu's quarterly operating results, Sohu's historical and possible future losses and limited operating history, and the company's reliance on online advertising sales, wireless services (most wireless revenues are collected from a few mobile telecom operators), online games and e-commerce for its revenues. Further information regarding these and other risks is included in Sohu's annual report on Form 10-K for the year ended December 31, 2004, Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, and other filings with the Securities and Exchange Commission.

#### **Conference Call**

Sohu's management team will host a conference call at 8:00 PM EST, February 6, 2006 (or 9:00 AM on February 7, 2006 in Beijing/Hong Kong time zone) following quarterly results announcement.



To listen to the conference call, please use dial in numbers below:

CHINA A Toll Free Number: +1 0800 744 0091

CHINA B Toll Free Number: +1 0800 440 0091

HONG KONG Toll Number: +852 3002 8537

USA Toll Number: +1 800 218 9073/ +1 303 262 2050

A replay of the call will be available for two weeks following the call and can be accessed by dialing the numbers below:

USA Toll Number: +1 800 406 7325

International: +1 303 590 3030

PASSCODE: 3460509

The conference call will be available on web cast live and replayed at: <http://corp.sohu.com/s2005/conferencecall.shtml>

#### **About Sohu.com**

Sohu.com Inc. (NASDAQ: SOHU) is China's premier online brand and indispensable to the daily life of millions of Chinese who use the portal network for their news, search, e-mail, wireless messaging, instant messaging, browsing, games and shopping. Sohu has built one of the most comprehensive matrices of Chinese language web properties and proprietary search engines, consisting of the mass portal and leading online media destination [www.sohu.com](http://www.sohu.com); interactive search engine [www.sogou.com](http://www.sogou.com); #1 online alumni club [www.chinaren.com](http://www.chinaren.com); #1 games information portal [www.17173.com](http://www.17173.com); the top real estate website [www.focus.cn](http://www.focus.cn); wireless value-added services provider [www.goodfeel.com.cn](http://www.goodfeel.com.cn); and leading online mapping service provider [www.go2map.com](http://www.go2map.com). This network of web properties offers vast Sohu user community very broad choices regarding information, entertainment, communication and commerce.

Sohu corporate services consist of brand advertising on its matrix of websites as well as paid listing and bid listing on its in-house developed search directory and engines. Sohu also offers three types of consumer services. Sohu offers wireless value-added services such as news, information, ringtone and picture content sent over mobile phones. The company also operates two massively multi-player online role-playing games as well as a casual game platform, and manages an e-commerce platform. Sohu.com, established by Dr. Charles Zhang, one of China's Internet pioneers, is in its ninth year of operation.

#### **For further information:**

Jessica Zhang

Senior Manager

Sohu.com Investor Relations and Corporate Communications

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<http://corp.sohu.com>

**SOHU.COM INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2005	Sep. 30, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
<b>Revenues:</b>					
Advertising					
Brand advertising	\$16,882	\$15,618	\$13,187	\$ 58,483	\$ 46,062
Sponsored search	3,406	3,172	2,692	12,414	9,686
Subtotal of advertising revenues	20,288	18,790	15,879	70,897	55,748
Non-advertising					
Wireless	7,249	6,762	4,663	26,330	36,369
E-commerce	816	879	1,996	3,801	6,171
Other	2,113	1,847	1,529	7,320	4,921
Subtotal of non-advertising revenues	10,178	9,488	8,188	37,451	47,461
Total revenues	30,466	28,278	24,067	108,348	103,209
<b>Cost of revenues:</b>					
Advertising					
Brand advertising	4,272	4,122	2,626	14,611	10,786
Sponsored search	1,084	813	388	3,077	1,272
Subtotal of advertising cost of revenues	5,356	4,935	3,014	17,688	12,058
Non-advertising					
Wireless	3,437	3,353	2,054	11,983	13,756
E-commerce	849	1,014	1,977	3,901	6,115
Other	774	626	694	2,748	2,056
Subtotal of non-advertising cost of revenues	5,060	4,993	4,725	18,632	21,927
Total cost of revenues	10,416	9,928	7,739	36,320	33,985
Gross profit	20,050	18,350	16,328	72,028	69,224
<b>Operating expenses:</b>					
Product development	3,555	3,439	2,387	13,730	8,820
Sales and marketing	7,724	4,615	4,547	21,342	16,529
General and administrative	2,451	2,813	2,987	10,163	8,521
Amortization of intangibles	509	509	455	1,948	1,360
Total operating expenses	14,239	11,376	10,376	47,183	35,230
Operating profit	5,811	6,974	5,952	24,845	33,994
Other income/(expense)	2,351	358	(244)	2,447	(838)
Interest income	755	617	595	2,500	2,444
Income before income tax expense	8,917	7,949	6,303	29,792	35,600
Income tax expense	20	81	199	(11)	37
Net income	\$ 8,937	\$ 8,030	\$ 6,502	\$ 29,781	\$ 35,637
Basic net income per share	\$ 0.24	\$ 0.22	\$ 0.18	\$ 0.82	\$ 0.98
Shares used in computing basic net income per share	36,626	36,417	36,478	36,309	36,369
Diluted net income per share	\$ 0.23	\$ 0.21	\$ 0.17	\$ 0.77	\$ 0.89
Shares used in computing diluted net income per share	39,435	39,750	40,533	39,680	41,011

**SOHU.COM INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED, IN THOUSANDS)**

	<u>As of Dec. 31,</u> 2005	<u>As of Dec. 31,</u> 2004
<b>ASSETS</b>		
Cash, cash equivalents and investments in marketable debt securities	\$ 134,077	\$ 141,322
Accounts receivable, net	19,283	19,901
Prepaid and other current assets	4,546	4,894
Fixed assets, net	15,745	12,175
Goodwill	50,918	44,502
Intangible assets, net	8,244	7,503
Other assets, net	6,868	4,470
	<u>\$ 239,681</u>	<u>\$ 234,767</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 35,053	\$ 36,268
Zero coupon convertible senior notes	74,780	90,000
	<u>109,833</u>	<u>126,268</u>
Total liabilities	109,833	126,268
Shareholders' equity	129,848	108,499
	<u>\$ 239,681</u>	<u>\$ 234,767</u>

SOHU.COM  
FOURTH QUARTER AND FISCAL 2005 EARNINGS REPORT CONFERENCE CALL

Conference Call Script

SOHU's management team will host a conference call on the same day at 8:00 PM EST, February 6, 2006 (or 9:00 AM, February 7, 2006 Beijing/Hong Kong time) following the quarterly results announcement.

To listen to the conference call, please use the dial in numbers below:

CHINA A Toll Free Number: +1 0800 744 0091

CHINA B Toll Free Number: +1 0800 440 0091

HONG KONG Toll Number: +852 3002 8537

USA Toll Number: +1 800 218 9073/ +1 303 262 2050

No passcode needed.

**Speaker dial in: +1 800 219 6110/+ 1 303 262 2051**

Operator: Turns over call to Ingrid

**Ingrid**

Thank you for joining Sohu.com to discuss our Fourth Quarter and Fiscal 2005 Results. On the call today are:

Charles Zhang, Chairman of the Board and CEO, and Carol Yu, Chief Financial Officer.

Before the management presentations I would like to read you the Safe Harbor Statement in connection with today's conference call.

Except for the historical information contained herein, the matters discussed in this conference call are forward looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement.

Potential risks and uncertainties include, but are not limited to, Sohu's historical and possible future losses, limited operating history, uncertain regulatory landscape in the People's Republic of China, fluctuations in quarterly operating results, and the company's reliance on online advertising sales, mobile phone related wireless revenue, online games and e-commerce for its revenues. Further information regarding these and other risks is included in Sohu's Annual Report on Form 10-K and other filings with the Securities and Exchange Commission.

Thank you for your patience. Now, let me turn the call over to Charles Zhang, Chairman and CEO.

Charles?

**Charles:**

**Thank you all for joining our conference call today.**

To start, there is one key message that I want to emphasize on our call today and that is our commitment to our core advertising business –both brand and search– remains firm and the growth that we have seen in this past quarter and throughout 2005 is representative of our growing strength in China’s online advertising market. We look to further drive our business through continued development and rollout of our own innovative products and services to drive increased traffic and usage on our sites.

**Now, I would like to discuss highlights for the quarter.**

**We reported record total revenues of \$30.5 million, growing 8% sequentially and 27% year-on-year, exceeding company guidance.**

Let me discuss the progress of our main business lines:

#### **Advertising**

Overall, we have seen a healthy fourth quarter and 2005 fiscal year in the advertising business. Advertising revenues for the fourth quarter were \$20.3 million, up 8% quarter on quarter, which exceeded our guidance. For the full fiscal year 2005, advertising revenues grew 27% year over year, also exceeding our guidance of 20% to 25% year over year growth.

Brand advertising revenues were \$16.9 million dollars and sponsored search accounted for \$3.4 million dollars, a sequential increase of 8% and 7% respectively in a traditionally weak quarter and a year-on-year increase of 28% and 27% respectively. I’d like to give an overview of brand advertising first.

**In brand advertising**, the 8% sequential revenue growth was primarily due to heavy advertising spending sectors such as information technology, automobile and real estate. On the other hand, sectors that have experienced the fastest growth for the quarter have been financial services, travel and health care.

More specifically, there are two very important underlying factors which are at the core of our brand advertising strength and strong future growth outlook.

- First, Sohu’s Olympics sponsorship role is a near-term and long-term growth catalyst for our brand advertising business.

The fourth quarter was the first quarter of constructing, operating and hosting the official Beijing 2008 Olympics website. The website, beijing2008.com is now up and running in three languages – Chinese, English and French.

We are very excited about our role in the Olympics and this has been felt throughout the entire organization at Sohu. This is a point of extreme pride for myself and all Sohu employees.

Our Olympics sponsorship role is also an important recognition by the Chinese government that Sohu is THE premier Internet portal company and has enhanced our overall relationship with government agencies.

The overriding impact is the increased Sohu brand awareness and we have already seen the effect of Sohu's branding power coming through from Fortune 1000 advertisers. In Q4, 2005, we already began signing new Olympic-related deals with Fortune 1000 advertisers, such as Lenovo and Audi China. We expect the impact to become even more magnified as the Beijing 2008 Olympics approaches.

- Second, Sohu's family of sites and innovative products continue to attract more traffic, increase stickiness and lead to more effective monetization with brand advertisers.

Sohu has more than 1000 content partners and has unique products such as Chinaren alumni club, and new products such as BBS, picture gallery and blogs. Traffic of our community-based products (i.e. BBS and picture gallery) has been increasing at a monthly rate of over 10% during Q4 2005.

As a result, Sohu's combined family of web sites has achieved the No. 1 ranking of page views amongst ALL Chinese Internet portal companies, according to Alexa.com, and Sohu has widened its lead against its major competitor. Based on Alexa.com, as of mid January 2006, Sohu family traffic was more than 120% of our major competitor, in terms of page views. Turning to our portal site, sohu.com, we have narrowed the gap quite significantly compared to our major competitor just in the past few months with Sohu traffic on the rise, from representing 72% of that of our major competitor at the end of September 2005 to 87% as of mid January 2006. We have also been pleased to have higher stickiness with 12-13 page views per user vs. our competitor's, 10-11. We would like to again emphasize, despite the above payoff in investment, Sohu has been able to maintain a higher gross margin of 74% vs. our competitor's 68%.

In addition, we have also seen increased monetization of our new products. In Q4 2005, revenue from Chinaren and those new products such as BBS and picture bar increased by over 60% sequentially. Although this was off a relatively small base, we expect this area to continue to gain momentum going forward.

**In sponsored search**, the 7% sequential growth was driven by a significant increase in bid-listing revenues which accounted for 30% of our total sponsored search revenue compared with 23% in the third quarter. This shift in revenue mix was mainly due to the expansion of our web site alliance network and a growing acceptance of the 'pay-for-click' concept in China.

In late November, 2005, we also successfully launched Sogou 2.5 which increased the search database to two billion retrieved pages and 800 million indexed pages. In addition, Sogou 2.5 is a more intelligent version in terms of crawling, selecting and ranking the search results, thus providing users with more relevant, accurate and up-to-date

web pages. Sogou 2.5 improves analysis capability to more effectively minimize dead and repetitive links. According to our internal data, Sogou traffic in the fourth quarter grew close to 40% compared with the third quarter and we believe this does not yet fully reflect the Sogou 2.5 upgrade as the new product did not fully ramp up until the end of December.

In addition, we continue to look for new and innovative ways to promote the Sogou brand via Sogou Supergirl contest and our national “spokesdog” search. The “spokesdog” search event has sparked great interest especially given that this year, 2006, is the Year of the Dog. It is important for us to brand Sogou as the search engine of choice custom-tailored to the needs of the Chinese community.

We remain confident that there will be strong growth for our advertising business over the next few years. The branding effect from the Olympic sponsorship will continue to have a significant impact on our ability to drive our advertising business going forward. We will also continue to focus on developing and fine-tuning our search product given the increasingly competitive search environment in order to position Sogou as one of the leading search engines in China.

For 2006, we are targeting full year advertising revenues to grow 25% year-on-year as we see continued healthy growth in brand advertising and more significant contribution from sponsored search advertising.

**Turning to our wireless business**, while our focus remains on our core advertising business, we have been happy to see a continuing steady recovery in our wireless business, with 7% sequential growth and 55% year-on-year growth in the fourth quarter to \$7.2 million dollars. In addition, the growth of our wireless business was achieved with NO substantial increase in promotional expenses or revenue sharing percentage change. We are pleased that our wireless business has become increasingly stable in fiscal 2005.

We firmly believe it is important for Sohu to maintain a presence on the wireless side, and more specifically in WAP, in anticipation of the imminent launch of 3G mobile network in China (3G licenses are expected to be awarded this year and commercialization of the technology by 2007) and the burgeoning market that it will bring. With this in mind, we recently launched our WAP portal, a WAP version of our existing portal in a simplified format, in December 2005 and have seen traffic increase 80% in the subsequent two months. We have been able to capitalize on Sohu’s broad content strength from our portal and family of web sites. We believe that we will be able to continue to leverage our content strength in this area.

I would now like to turn the call over to our CFO, Carol Yu, for a financial review.

**Carol:**

Thank you Charles. I would like to take this opportunity to discuss some key financials for the fourth quarter and 2005 fiscal year.

## I. Revenues

We are pleased to report strong revenues of \$30.5 million for the fourth quarter which exceeded our guidance. Revenues for fiscal 2005 were \$108.3 million, a record in Sohu's corporate history.

### 1. Advertising

With advertising revenues of \$20.3 million, we experienced a healthy 8% sequential and 28% year-on-year improvement. In fiscal 2005, total advertising revenues of 70.9 million grew 27% year-on-year.

### 2. Wireless:

For the fourth quarter, wireless revenues were \$7.2 million, up 7% quarter-on-quarter and 55% year-on-year. In fiscal 2005, total wireless revenues were \$26.3 million, declining 28% year-on-year, reflecting Sohu's strategy of shifting revenue mix to the core advertising business.

Let me give you a breakdown of the fourth quarter wireless revenue:

SMS revenues declined 3% to \$4.2 million which was a result of technical problems with one of the operator's network. These issues have already been resolved by the end of the fourth quarter.

WAP revenues were up 8% despite being impacted by China Mobile's new policy in late November prohibiting all SPs from promoting paid services on any WAP networks except on China Mobile's monternet platform.

MMS, IVR and Ring Back Tone services accounted for \$0.9 million in total as compared to \$0.5 million in the previous quarter.

Despite certain challenges, wireless revenues has experienced four consecutive quarters of cautious recovery.

### 3. Other revenues:

Our other revenues mainly included online game revenues which grew 19% sequentially and 42% year-on-year to \$1.7 million.

## II. Turning to our gross margins:

Overall gross margin for the fourth quarter was 66%, up from 65% in the previous quarter and down from 68% in the fourth quarter of 2004. In fiscal 2005, overall gross margin was 66%, down slightly from 67% in fiscal 2004.

Advertising gross margin was 74% in the fourth quarter, relatively flat from the previous quarter and down from 81% in the same period last year. In fiscal 2005, advertising gross margin was 75% compared with 78% for fiscal 2004.

Non-advertising gross margin was 50% for the fourth quarter, an improvement from 47% for the prior quarter and 42% in the fourth quarter of last year. In fiscal 2005, non-advertising gross margin was 50% compared with 54% in fiscal 2004.

## III. Operating expenses

For the fourth quarter, Sohu's operating expenses totaled \$14.2 million, increasing 25% from previous quarter and 37% year-on-year. The increase in expenses quarter-on-quarter primarily relates to costs associated with Sohu's exclusive Olympics sponsorship role and additional advertising sales commissions payable to our sales teams totaling \$1.4 million. More specifically, the increase of \$1.4 million sales commissions can be attributed to two



factors. First, consistent with Sohu's previous policy, commission expenses payable to our sales teams were recorded upon actual cash collection of advertising revenue. During the fourth quarter, as our cash collection was much higher than that of last quarter, related sales commissions increased by \$0.7 million. Second, as of December 31, 2005, in view of the Company's implementation of tighter credit controls and an increase in the overall credit-worthiness of its customers, the Company determined that sales commissions should be recorded upon recognizing advertising revenue. As a result, we recorded an additional accounting adjustment of \$0.7 million of sales commissions relating to revenue recorded but not yet collected.

#### IV. Operating Profit Margin

Operating profit margin in the fourth quarter was 19%, down from 25% in the previous quarter and 25% in the same period last year. Operating profit margin in fiscal 2005 was 23%, down from 33% in fiscal 2004.

Before the inclusion of the newly required stock based compensation expense, we estimate operating profit margin will resume back to mid twenties level for the first quarter of 2006.

#### V. Other Income

For the fourth quarter, Sohu's other income totaled \$2.4 million. This included a gain of \$1.2 million arising from the repurchase of convertible notes with face value of \$15.22 million at a discount. In addition, due to an exemption regarding payment of certain taxes and receipts of tax refunds by our China subsidiaries, we have also recorded approximately \$1.2 million gain of other income.

#### VI. Net Income

Net income for the fourth quarter was \$8.9 million or 23 cents per fully diluted share. This compares to net income of \$8.0 million or 21 cents per fully diluted share for the previous quarter and \$6.5 million or 17 cents per fully diluted share for fourth quarter of 2004. For fiscal 2005, net income was \$29.8 million or 77 cents per fully diluted share compared to net income of \$35.6 million or 89 cents per fully diluted share in fiscal 2004.

#### VII. Balance Sheet.

Let me now make a few comments on the Balance Sheet.

As of December 31, 2005, Sohu's cash, cash equivalents and investments in marketable debt securities was \$134 million, compared to \$132 million as of end of last quarter and \$141 million December 31, 2004. During the year, the Company completed a \$13.8 million stock repurchase program and the above mentioned repurchase of convertible notes.

As of December 31, 2005, our net accounts receivable balance was \$ 19.3 million, reduced by \$4 million as compared to last quarter. This includes \$14.3 million related to our advertising business and \$3.5 million related to our wireless business. During the fourth quarter, we managed to collect sales proceeds totaling \$23.3 million for our advertising business. Such collections resulted in a drop in our DSO for the fourth quarter to 62 days compared to 82 days in the previous quarter. Fourth quarter advertising DSO was also reduced to 77 days, significantly down from 105 days for the third quarter. This demonstrates our efforts in closely monitoring our accounts receivable are paying off.

As of December 31, 2005, our bad debt provision amounted to \$1.2 million, compared to \$1.7 million as of September 30, 2005. While we consider this level of bad debt provision to be still relatively low as compared to our level of advertising sales, we continue to remain prudent in our revenue recognition policy and strengthening our credit extension.

#### VIII. And finally, our Business Outlook

You will find detailed guidance for the first quarter 2006 in our earnings release, but I would like to highlight:

- 1) Sohu estimates total revenues to be between \$28.0 to \$30.0 million, with advertising revenues of \$19.0 to \$20.0 million and non-advertising revenues of \$9.0 to \$10.0 million;
- 2) Sohu estimates stock based compensation expense to be between \$1.7 to \$1.8 million. In addition, starting from January 1, 2006, the applicable PRC income tax rate of Sohu has increased to 7.5%. Sohu estimates that PRC income tax expense to be between \$0.5 to \$0.7 million. The total impact of these two expenses is expected to reduce Sohu's fully diluted earnings per share by 5 to 6 cents; and
- 3) After deducting the stock based compensation and PRC income tax expense mentioned above, Sohu estimates fully diluted earnings per share for the first quarter of 2006, under US generally accepted accounting principles, to be between 14 to 16 cents.

In summary, we are pleased with our fourth quarter and fiscal 2005 results and believe we are well positioned for growth in 2006. Our healthy brand advertising business combined with a steadily improving search product further supplemented by cautious recovery on the wireless side are all positive factors as we look ahead into 2006 and beyond. We view the Olympic sponsorship as a strong growth catalyst and affirmation of Sohu's long term leadership in this dynamic online environment. We remain confident that our positioning and forward strategy contains the optimal mix of what is needed to do to drive results and increase shareholder value.

That concludes my presentation. Thank you for your attention. I would like to now open the floor for questions. Operator?

(Q&A Session)

**Ingrid** Closing Remarks

We would like to thank everyone for participating in today's call. Please feel free to contact us with any additional questions that you may have. Thank you.