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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 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 **(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)**	**98-0204667** **(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 July 30, 2003**
Common stock, $.001 par value	35,752,986

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

	June 30, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,248	$ 18,929
Accounts receivable, net	4,182	1,992
Accounts receivable from related parties	7,968	1,962
Prepaid and other current assets	2,538	2,009
Current portion of long-term investments in marketable debt securities	8,748	2,482
Total current assets	54,684	27,374
Long-term investments in marketable debt securities	15,426	22,800
Fixed assets, net	5,502	6,012
Long-term loans to related parties, net	4,739	4,827
Other assets, net	1,320	959
	$ 81,671	$ 61,972
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 691	977
Payable to related parties	1,009	1,455
Accrued and other liabilities	8,828	2,687
Deferred revenues	2,654	1,622
Total current liabilities	13,182	6,741
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Common Stock: $0.001 par value per share (75,400 authorized, 35,620 and 34,611 shares issued and outstanding at June 30, 2003 and December 31, 2002)	36	35
Treasury Stock	(2,003)	(2,003)
Additional paid-in capital	130,994	129,881
Deferred compensation	(25)	(42)
Accumulated other comprehensive income	557	547
Accumulated deficit	(61,070)	(73,187)
Total shareholders' equity	68,489	55,231
	$ 81,671	$ 61,972

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Revenues:				
Advertising	$ 6,801	$ 3,363	$ 11,277	$ 5,874
Non-advertising (including $11,325, $1,871, $19,879 and $2,759 from related parties respectively)	12,548	2,763	22,483	4,783
Total revenues	19,349	6,126	33,760	10,657
Cost of revenues:				
Advertising (including $36, $36, $72, and $72 related party services, respectively)	1,750	1,495	3,352	2,958
Non-advertising (including $3,548, $848, $6,194, and $1,213 related party services, respectively)	4,521	1,600	8,175	3,048
Total cost of revenues	6,271	3,095	11,527	6,006
Gross profit	13,078	3,031	22,233	4,651
Operating expenses:				
Product development	1,926	1,310	3,674	2,485
Sales and marketing	2,528	1,872	4,527	3,887
General and administrative	1,312	984	2,394	1,951
Total operating expenses	5,766	4,166	10,595	8,323
Operating profit/(loss)	7,312	(1,135)	11,638	(3,672)
Other expense	(129)	(58)	(191)	(36)
Interest income	343	323	670	629
Net income/(loss)	7,526	(870)	12,117	(3,079)
Basic net income/(loss) per share	$ 0.21	$ (0.02)	$ 0.35	$ (0.09)
Shares used in computing basic net income/(loss) per share	35,286	35,641	35,020	35,633
Diluted net income/(loss) per share	$ 0.19	$ (0.02)	$ 0.31	$ (0.09)
Shares used in computing diluted net income/(loss) per share	40,036	35,641	39,405	35,633

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

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

	Six Months Ended	
	June 30, 2003	June 30, 2002
Cash flows from operating activities:		
Net income/(loss)	$ 12,117	$ (3,079)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	2,410	2,453
Provision for valuation allowance for long-term loans to related parties	209	106
Loss on disposal of fixed assets	2	—
Provision for allowance for doubtful accounts	(74)	786
Stock-based compensation expense	(12)	5
Changes in assets and liabilities:		
Accounts receivable	(2,115)	(1,083)
Accounts receivable from related parties	(6,006)	—
Prepaid and other current assets	(470)	425
Accounts payable	223	481
Payable to related parties	(721)	241
Accrued and other liabilities	6,370	(754)
Deferred revenues	1,032	454
Net cash provided by operating activities	12,965	35
Cash flows from investing activities:		
Long term investments in marketable debt securities	1,120	(4,895)
Long-term loans to related parties	(121)	(3,264)
Acquisition of fixed assets	(1,423)	(1,584)
Acquisition of other assets	(1,297)	(38)
Net cash used in investing activities	(1,721)	(9,781)
Cash flows from financing activities:		
Issuance of Common Stock pursuant to Stock Incentive Plan	1,075	5
Net cash provided by financing activities	1,075	5
Net increase/(decrease) in cash and cash equivalents	12,319	(9,741)
Cash and cash equivalents at beginning of period	18,929	29,263
Cash and cash equivalents at end of period	$ 31,248	$ 19,522

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

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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 Shareholders' Equity
Balance, December 31, 2002	34,611	$ 35	$ (2,003)	$ 129,881	$ (42)	$ 547	$ (73,187)	$ 55,231
Net income	—	—	—	—	—	—	12,117	12,117
Unrealized gains on marketable debt securities	—	—	—	—	—	12	—	12
Foreign currency translation adjustment	—	—	—	—	—	(2)	—	(2)
Comprehensive income								12,127
Compensatory stock options	—	—	—	(30)	17	—	—	(13)
Issuance of common stock pursuant to stock incentive plan	1,009	1	—	1,143	—	—	—	1,144
Balance, June 30, 2003	35,620	$ 36	$ (2,003)	$ 130,994	$ (25)	$ 557	$ (61,070)	$ 68,489

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

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SOHU.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. THE COMPANY AND BASIS OF PRESENTATION

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 wholly owned subsidiaries, Sohu ITC Information Technology (Beijing) Co., Ltd. (“Beijing ITC”) and Sohu.com (Hong Kong) Limited, and a related company, Beijing Sohu Online Network Information Services, Ltd. (“Beijing Sohu”).

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 six months ended June 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. 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 or assets to its two principal non-advertising segments as management does not use this information to measure the performance of the operating segments. The Company does not allocate any website operation costs to non-advertising cost of revenues.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues:				
Advertising	$ 6,801	$ 3,363	$ 11,277	$ 5,874
Non-advertising:				
E-subscription	11,564	1,877	20,242	2,766
E-commerce	984	800	2,159	1,828
Other	—	86	82	189
Subtotal non-advertising revenues	12,548	2,763	22,483	4,783
Total revenues	19,349	6,126	33,760	10,657
Cost of revenues:				
Advertising	1,750	1,495	3,352	2,958
Non-advertising:				
E-subscription	3,630	850	6,276	1,216
E-commerce	891	663	1,899	1,568
Other	—	87	—	264
Subtotal non-advertising cost of revenues	4,521	1,600	8,175	3,048
Total cost of revenues	6,271	3,095	11,527	6,006
Gross profit	$ 13,078	$ 3,031	$ 22,233	$ 4,651

3. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common and, if dilutive, common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common stock issuable upon the exercise of stock options (using the treasury stock method).

4. 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, financial services 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, subject to the restrictions set forth in the Sarbanes-Oxley Act of 2002 with respect to loans to executive officers and directors.

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 are included in long term loans to related parties, 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. As of June 30, 2003, the Company had recorded a valuation allowance of $56,000 against long-term loans to related parties for losses incurred by Beijing Sohu.

Pursuant to the agreements with Beijing Sohu and the shareholders of Beijing Sohu, certain operations related to the Company's online content were transferred to Beijing Sohu in order to allow Beijing Sohu to develop and provide content to the Company for a monthly service fee, which will be subject to periodic adjustment as agreed between the parties. The Company paid $36,000 and $72,000 in such service fees for the three and six months ended June 30, 2003, respectively, the same as for the corresponding three and six month periods in 2002. Because of PRC regulations which prohibit foreign companies from operating in the telecommunications industry, Beijing Sohu contracted with network operators for e-subscription revenues of $10,967,000 and $19,455,000 during the three and six months ended June 30, 2003, respectively, as compared to $1,871,000 and $2,759,000 in the corresponding three and six month periods in 2002. At June 30, 2003, accounts receivable from related parties included receivables from Beijing Sohu of $7,693,000 primarily related to e-subscription revenues ultimately due from third party network operators. Beijing Sohu generated e-commerce sales of $984,000 and $2,159,000, respectively, during the three and six months ended June 30, 2003, as compared to $235,000 and $535,000 in the corresponding three and six month periods in 2002.

A large percentage of the Company's e-commerce cash on delivery services in Beijing is being provided at fair market value by JBM Delivery, 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. The company was started by Zhang Tao in the third quarter of 2002. As of June 30, 2003, total delivery fees paid by the Company to the delivery company were approximately $110,000 (including $34,000 and $65,000 in fees paid in the three and six months ended June 30, 2003, respectively), representing delivery of 66% and 58%, respectively, of total deliveries in such three and six month periods.

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 Beijing Century High-Tech Investment Co., Ltd. ("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. These loans are included in long-term loans to related parties. As of June 30, 2003, the Company had 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. These loans are included in long term loans to related parties. As of June 30, 2003, the Company had recorded a valuation allowance of $3,000 against long-term loans to related parties for losses incurred by Hengda.

Because of PRC regulations which prohibit foreign companies from operating in certain industries, Hengda contracted with a network operator for e-subscription revenues of $358,000 and $424,000 for Internet access services during the three and six months ended June 30, 2003, respectively. At June 30, 2003, accounts receivable from related parties included receivables from Hengda of $275,000 primarily related to e-subscription revenues ultimately due from a third party network operator. There were no revenues recorded during the three and six months ended June 30, 2002 because this business started in the first quarter of 2003.

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 Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet"), a company to be incorporated in the PRC which, upon approval from the local authorities,will engage 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. These loans are included in long term loans to related parties.

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. Sohu-Guolian will provide technical services to the PRC online securities trading and financial services industries. 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.

As of June 30, 2003, payable to related parties included $1,009,000 payable to Hengda, as Hengda had transferred its unused cash to the Company. The Company may be required to repay these funds at any time.

PRC regulations currently restrict the Company from holding direct equity interests in Beijing Sohu, High Century, Hengda, Sohu Internet and Sohu-Guolian; therefore, the financial statements of these entities are not consolidated with those of the Company. As the shareholders of these entities are also officers and shareholders of the Company, these entities are related parties and, thus, transactions with these entities are disclosed in accordance with SFAS 57, "*Related Party Disclosures*." The Company expects that it will continue to be involved in and provide financial support to these entities.

5. 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.

6. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the EITF reached a consensus on Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF No. 00-21”). This Issue addresses how revenue arrangements with multiple deliverables should be divided into separate units of accounting and how the arrangement consideration should be allocated to the identified separate accounting units. EITF No. 00-21 is effective for fiscal periods beginning after June 15, 2003. The Company does not believe that the adoption of EITF No. 00-21 will have a significant impact on its financial statements.

In January 2003, Financial Accounting Standards Board Interpretation No. 46, “Consolidation of Variable Interest Entities” (“FIN 46”), was issued. FIN 46 addresses reporting and disclosure requirements for variable interest entities (“VIEs”). It defines a VIE as an entity that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires consolidation of a VIE by the enterprise that has the majority of the risks and rewards of ownership, referred to as the primary beneficiary. It also requires additional disclosures for an enterprise that holds a significant variable interest in a VIE, but is not the primary beneficiary. The consolidation and disclosure provisions of FIN 46 are effective immediately for VIEs created after January 31, 2003, and for interim or annual reporting periods beginning after June 15, 2003 for VIEs created before February 1, 2003.

VIEs consist of corporations, trusts, partnerships and other entities where the equity investment holders have not contributed sufficient capital to finance the activities of the VIEs or the equity investment holders do not have defined rights and obligations normally associated with equity investments. The Company’s related parties, Beijing Sohu, High Century and Hengda are VIEs and the Company is the primary beneficiary as defined under FIN46. Thus, effective July 1, 2003, these three related parties will be consolidated in the Company’s financial statements. Sohu Internet will also be a VIE with the Company as the primary beneficiary as defined under FIN46 and consolidated in the Company’s financial statements upon its establishment. Please see Note 5 for transactions with VIEs.

The Company does not believe that the adoption of FIN 46 will have a material impact on its financial statements.

7. RECLASSIFICATIONS

Certain amounts from prior periods have been reclassified to conform with current period presentation.

8. SUBSEQUENT EVENT

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 offering resulted in net proceeds to the Company of approximately $87,750,000 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 will be convertible into the Company’s common stock at a conversion price of $44.76 per share, subject to adjustment. Each $1,000 principal amount at maturity will initially be 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 may 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 and the common stock issuable upon conversion of the notes have not been registered under the U.S. Securities Act of 1933 or the securities laws of any other jurisdiction. Unless they are registered, 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. Sohu has agreed to file with the Securities and Exchange Commission a registration statement covering resales of the notes and the shares of common stock issuable upon conversion of the notes.

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 ITC Information Technology (Beijing) Co., Ltd. (or Beijing ITC), Sohu.com Limited, 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), Sohu-Guolian Information Technology Co., Ltd. (or Sohu-Guolian), 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-commerce and short messaging services. 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-subscription, short messaging 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.

On May 1, 2003, Beijing Sohu signed a six month agreement with China Mobile (Beijing) Co., Ltd. ("BMCC") whereby BMCC provides a billing and message transmission platform which allows China Mobile users throughout China to use short messaging services and content produced by Sohu. The agreement will be automatically renewed for another six months if both BMCC and Beijing Sohu don't want to terminate the agreement. Pursuant to the agreement, Sohu has the right to set fees for its services to a maximum of $0.25 per message or $3.62 per month for subscription services. Upon collecting fees for Sohu services, BMCC remits the service fees 30 days after the month in which the service is delivered. For use of its platform and collection, BMCC charges a gateway fee of $0.006-$0.012 per message depending on the volume of the monthly total messages and retains 15% of total collection from mobile users. Sohu is responsible for establishing and maintaining its own delivery and content systems, maintaining a connection to the BMCC, and providing content and services for mobile users.

At June 30, 2003, Sohu had contracts expiring at various times from November 2003 to May 2004 with 10 other China Mobile subsidiaries which provide services in their respective provinces under terms similar to those offered by BMCC.

On June 2, 2003, Beijing Sohu signed a one year agreement with China Unicom Co., Ltd. ("Unicom") whereby Unicom provides a billing and message transmission platform which allows Unicom users throughout China to use short messaging services and content produced by Sohu. Pursuant to the agreement, Sohu has the right to set fees for its services to a maximum of $0.25 per message or $3.62 per month for subscription services. Upon collecting fees for Sohu services, Unicom remits the service fees 60-90 days after the month in which the service is delivered. For use of its platform and collection, Unicom charges a gateway fee of $0.01 per message, a 12% bad debts and business taxes fee based on the total monthly fees paid to us and a collection fee ranging from 10% to 40% (depending on the volume of messages) of the monthly fees paid to us Sohu is responsible for establishing and maintaining its own delivery and content system, maintaining the connection to the gateway of Unicom, and providing content and services for mobile users.

We have incurred significant net losses since inception, except for each of the four quarters ended June 30, 2003. As of June 30, 2003, we had an accumulated deficit of $61.1 million. These losses have been 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.

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, provision for long-term loans to related parties, 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. Pursuant to standard advertising contracts, we provide placements on a number of different Web site channels and formats, including but not limited to banners, links, logos, buttons, content integration and email marketing. Revenue is normally recognized ratably over the period in which the advertising is displayed, when collectibility is reasonably assured. In estimating the fair value of individual services provided, we make estimates based on the value of services provided to our customers using prices contained in our standard rate card and actual average sell rates. Different sell rates can exist between contracts depending on the size, the respective advertiser and the location of the advertisements. 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 Web site, 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 short messaging 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 Sohu 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 Sohu each operator remits the e-subscription fees, net of its service fees, for the month to Beijing Sohu, which then transfers the funds to Sohu. 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, ranges 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 is currently in the process of establishing a new billing platform and may require us to switch to this platform in the third quarter of 2003 or 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 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 from third parties and related parties. 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 non-related party accounts receivable balance was $4.2 million net of allowance for doubtful accounts of $598,000 as of June 30, 2003. Our accounts receivable from related parties was $8.0 million and there was no allowance for doubtful accounts as of June 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.

Our management must make estimates of the valuation of long-term loans to related parties which were made to facilitate our participation in telecommunications, internet content, financial services and certain other businesses in China where foreign ownership is either prohibited or restricted (the "PRC Companies"). To the extent losses are incurred by the PRC Companies, Sohu accrues for such losses by recording a valuation allowance against long-term loans to related parties. As of June 30, 2003, Sohu had recorded $461,000 of such valuation allowance for losses incurred by the PRC Companies. If the regulatory environment was to change or business conditions were to deteriorate, additional allowances might be required.

As of June 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, which are currently not contemplated in our current estimates, that would allow us to realize more of our deferred tax assets than the presently recorded net amount, an adjustment to the deferred tax asset would increase income when those events occurred.

RESULTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002

REVENUES

Total net revenues were $19.3 million and $33.8 million for the three and six months ended June 30, 2003, respectively, as compared to $6.1 million and $10.7 million for the corresponding three and six month periods in 2002. For the three months ended June 30, 2003 and 2002, advertising revenues constituted $6.8 million and $3.4 million, or 35.1% and 54.9% of total revenues, respectively, and non-advertising revenues were $12.5 million and $2.8 million, or 64.9% and 45.1% of total revenues, respectively. For the six months ended June 30, 2003 and 2002, advertising revenues constituted $11.3 million and $5.9 million, or 33.4% and 55.1% of total revenues, respectively, and non-advertising revenues were $22.5 million and $4.8 million, or 66.6% and 44.9% of total revenues, respectively.

Advertising Revenues

Advertising revenues increased by $3.4 million to $6.8 million for the three months ended June 30, 2003 and increased by $5.4 million to $11.3 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. The increase was primarily due to the development and growth from our paid listing business, higher advertising rates, the increasing number of advertisers purchasing space on our online media properties as well as larger and longer-term purchases by certain advertisers. Sales to Sohu's five largest advertisers were 12% and 10% of total advertising revenues for the three and six months ended June 30, 2003, respectively, as compared to 20% and 16% of total advertising revenues for the corresponding three and six month periods in 2002. As of June 30, 2003 and 2002, $2.2 million and $916,000 of deferred advertising revenues were included within 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 $9.8 million to $12.5 million for the three months ended June 30, 2003 and increased by $17.7 million to $22.5 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. Non-advertising revenues for the three months ended June 30, 2003 were derived from e-subscription fees of $11.5 million and e-commerce services of $984,000.

Most of the growth in non-advertising revenues was attributable to increases in e-subscriptions revenue. E-subscription revenues are derived principally from providing value added short messaging 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-subscriptions fees increased by $9.6 million to $11.5 million for the three months ended June 30, 2003 and increased by $17.4 million to $20.2 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. The increase was due to product development and consumer acceptance of short messaging services most of which were recently introduced.

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 fulfillment 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, cosmetics, 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 who are individuals in Beijing, Shanghai and Guangzhou. Fulfillment is provided by delivery companies or through postal services. Substantially all sales are done on a cash on delivery basis. E-commerce revenue increased by $184,000 to $984,000 for the three months ended June 30, 2003 and increased by $331,000 to $2.2 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002, as a result of more people purchasing through our Web site.

COSTS AND EXPENSES

Cost of Revenues

Total cost of revenues increased by $3.2 million to $6.3 million for the three months ended June 30, 2003 and increased by $5.5 million to $11.5 million for the six months ended June 30, 2003, as compared to the three and six month periods in 2002. For the three months ended June 30, 2003 and 2002, advertising cost of revenues constituted $1.8 million and 1.5 million, or 27.9% and 48.3% of total cost of revenues, respectively, and non-advertising cost of revenues was $4.5 million and $1.6 million, or 72.1% and 51.7% of total cost of revenues, respectively. For the six months ended June 30, 2003 and 2002, advertising cost of revenues constituted $3.4 million and $3.0 million, or 29.1% and 49.3% of total cost of revenues, respectively, and non-advertising cost of revenues was $8.2 million and $3.0 million, or 70.9% and 50.7% of total cost of revenues, respectively.

Advertising Cost of Revenues

Advertising cost of revenues increased by $255,000 to $1.8 million for the three months ended June 30, 2003 and increased by $394,000 to $3.4 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. The increases were primarily due to higher spending on headcount and content as we expanded our channel offerings.

Non-advertising Cost of Revenues

Non-advertising cost of revenues increased by $2.9 million to $4.5 million for the three months ended June 30, 2003 and increased by $5.1 million to $8.2 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. For the three months ended June 30, 2003, non-advertising cost of revenues included $3.6 million in e-subscription cost of revenues consisting of subscription collection and short message transmission charges paid to third party network operators and $891,000 in e-commerce cost of revenues consisting of the purchase price of consumer products sold by Sohu and inbound and outbound shipping charges. For the six months ended June 30, 2003, non-advertising cost of revenues included $6.3 million in e-subscription cost of revenues and $1.9 million in e-commerce cost of revenues. E-commerce and subscription cost of revenues do not include allocations for Web site operating costs. Substantially all non-advertising cost of revenues are variable costs and the increase is consistent with the increases in revenue.

Product Development Expenses

Product development expenses increased by $616,000 to $1.9 million for the three months ended June 30, 2003 and increased by $1.2 million to $3.7 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. The increases were primarily attributable to increased headcount and licensing spending associated with our e-subscriptions and online games development.

Sales and Marketing Expenses

Sales and marketing expenses increased by $656,000 to $2.5 million for the three months ended June 30, 2003 and increased by $640,000 to $4.5 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. The increases were primarily due to the increased marketing spending as we launched a game in the second quarter of 2003.

General and Administrative Expenses

General and administrative expenses increased by $328,000 to $1.3 million for the three months ended June 30, 2003 and increased by $443,000 to $2.4 million for the six months ended June 30, 2003, as compared to the corresponding three and six month periods in 2002. The increases were primarily due to increased professional fees and head counts in 2003.

Operating Profit (Loss)

As a result of the foregoing, we had operating profit of $7.3 million and $11.6 million for the three and six months ended June 30, 2003 as compared to operating loss of $1.1 million and $3.7 million for the corresponding three and six month periods in 2002.

Interest Income

Interest income was $343,000 and $670,000 for the three and six months ended June 30, 2003, approximately the same as for the corresponding three and six month periods in 2002, as our cash balances and average rates of return were similar and we invested in longer term marketable securities which partly protected us from falling interest rates.

Net Income (Loss)

As a result of the foregoing, we had net income of $7.5 million and $12.1 million for the three and six months ended June 30, 2003, as compared to net loss of $870,000 and $3.1 million for the corresponding three and six month periods in 2002.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations principally through private sales of preferred stock and our initial public offering completed in July 2000. From inception through June 30, 2003, we have raised net proceeds of $39.2 million through the sale of preferred stock in private placements and $52.4 million from the sale of common stock in our initial public offering. We invest our excess cash in marketable debt securities of high quality investment grade. As of June 30, 2003, we had cash, cash equivalents, and investments in marketable debt securities totaling approximately $55.4 million.

Net cash provided by operating activities was $13.0 million for the six months ended June 30, 2003, primarily due to $12.1 million of our net income, $2.4 million of depreciation and amortization, $209,000 of provision for valuation allowance for loans to related parties, offset by $1.7 million of an increase in working capital. There was no significant net cash provided by operating activities for the six months ended June 30, 2002. That was primarily due to $3.1 million of our net loss, $2.5 million of depreciation and amortization, $786,000 of provision for allowance for doubtful accounts and $236,000 of an increase in working capital.

Net cash used in investing activities was $1.7 million for the six months ended June 30, 2003, primarily due to $1.4 million of purchase of fixed assets and $1.3 million of addition of other assets, offset by cash received from matured marketable debts. Net cash used in investing activities was $9.8 million for the six months ended June 30, 2002, and primarily due to $4.9 million of long-term investments in marketable debt securities, the $1.5 million of purchase of fixed assets and $3.3 million of long-term loans to related parties for financing investments in High Century, Hengda and Sohu-Guolian.

Net cash provided by financing activities was $1.0 million for the six months ended June 30, 2003, due to proceeds from issuance of common stock pursuant to the stock incentive plan. There was no significant net cash provided by financing activities for the six months ended June 30, 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 offering resulted in net proceeds to Sohu of approximately $87,750,000 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 will be convertible into Sohu's common stock at a conversion price of $44.76 per share, subject to adjustment. Each $1,000 principal amount at maturity will initially be 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. The notes and the common stock issuable upon conversion of the notes have not been registered under the U.S. Securities Act of 1933 or the securities laws of any other jurisdiction. Unless they are registered, 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. Sohu has agreed to file with the Securities and Exchange Commission a registration statement covering resales of the notes and the shares of common stock issuable upon conversion of the notes.

Our principal commitments consist of obligations under various operating leases for office facilities. We expect that capital expenditures in 2003 will primarily consist of purchases of additional servers, computer software, workstations and technological improvements to network infrastructure.

Pursuant to the agreement with a bank, we were extended, on an uncommitted basis, a commercial line of credit of $15 million (the "Credit Facility") with our investments in marketable debts as a collateral, to meet any of our short-term contingent cash needs. We didn't utilize any of the Credit Facility as of June 30, 2003.

In July 2003, China Mobile Communication Corporation, or 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. In each of the three months ended December 31, 2002, March 31, 2003 and June 30, 2003, a substantial portion of our e-subscriptions growth, especially as regards our GGMM product, was derived from using website union. As a result of our inability to use website union to promote our products, we expect minimal or no growth in e-subscriptions revenue for the three months ended September 30, 2003 as compared to the three months ended June 30, 2003.

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. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these sources are insufficient to satisfy cash requirements, we may seek to sell additional equity or debt securities or to increase our existing or obtain a new credit facility. The sale of additional equity or convertible debt securities could result in additional dilution to stockholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict operations. Financing may not be available in amounts or on terms acceptable to us, if at all.

Chinese regulations limit our ability to convert renminbi into foreign currency for capital items. While operations in China are currently a net user of cash, the ability to use future cash generated in China for expenditures outside of China may be restricted. 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 four quarters ended June 30, 2003, we have incurred net losses since inception and losses could continue in the future.

Except for each of the four quarters ended June 30, 2003, we have incurred significant net losses since our inception in August 1996. In addition, we had an accumulated deficit of approximately $61.1 million at June 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 net income for each of the four consecutive quarters ended June 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, short messaging and subscription 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 wholly owned subsidiary, Beijing ITC. Beijing ITC is a wholly foreign owned enterprise, or WFOE, under PRC law. We are a Delaware corporation and a foreign person 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, online stock trading and internet access, we have established Beijing Sohu, High Century and Hengda 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 June 30, 2003, Sohu had invested $5.1 million in Beijing Sohu, High Century and Hengda through loans to related parties. 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 of $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 will provide technical services to the PRC online securities trading and financial services industries. We do not have any direct ownership interest in Beijing Sohu, High Century, Hengda or Sohu-Guolian.

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, Beijing Sohu's, Hengda's, High Century's or Sohu-Guolian'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, Beijing Sohu's, Hengda's, High Century's and Sohu-Guolian's current or proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied to us, Beijing ITC, High Century, Hengda, Beijing Sohu, or Sohu-Guolian.

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

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

At June 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 will be owned 80% by High Century and 20% by an employee. Beijing Sohu, High Century, Hengda, and Sohu Internet are or will be used to facilitate our participation in telecommunications, Internet content, financial services and certain other businesses in China where foreign ownership is either prohibited or restricted. We expect that we will continue to be involved in and provide additional financial support under similar arrangements in the future, subject to the restrictions set forth in the Sarbanes-Oxley Act of 2002 with respect to loans to directors and executive officers.

The agreements contain provisions that, subject to PRC law, (i) the loans can only be repaid to Sohu by transferring the shares of High Century, Hengda, Sohu Internet or Beijing Sohu to Sohu, (ii) the shares of High Century, Hengda, Sohu Internet or Beijing Sohu cannot be transferred without the approval of Sohu, and (iii) Sohu has 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, Sohu-Guolian and Beijing Sohu.

Our ability to ultimately collect these loans will depend on the profitability of Beijing Sohu, Hengda, Sohu-Guolian, Sohu Internet and High Century, which is uncertain. As of June 30, 2003, we had recorded $461,000 of valuation allowance for losses incurred by Beijing Sohu, High Century, Hengda, and Sohu-Guolian. 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-Guolian, Sohu Internet and Beijing Sohu.

An amount payable by our wholly-owned subsidiary Beijing ITC to Hengda may be deemed to be an intercompany loan that is not in compliance with applicable PRC regulations.

As of June 30, 2003, our wholly-owned subsidiary Beijing ITC had an amount payable to Hengda of approximately $1.0 million. This amount payable represents funds that were initially used to capitalize Hengda. These funds are not currently being used in the operations of Hengda and have been transferred to Beijing ITC. Beijing ITC does not pay any interest to Hengda in respect of the transferred funds and does not plan to repay the funds at this time. The transfer of the funds may be deemed to be an intercompany loan that is not in compliance with applicable PRC regulations, which generally prohibit direct lending by PRC entities that are not licensed banks. While Hengda and Beijing ITC have each passed the necessary annual inspections of the PRC authorities in all recent periods, if the transfer is deemed to be an intercompany loan, Beijing ITC may be required to repay the funds within a short period and Hengda may be subject to certain penalties.

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, a PRC company 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 acquire appropriate government approvals to conduct our content-related operations. In addition, we have transferred our content-related assets and operations to Beijing Sohu. 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 or Beijing Sohu may not be in compliance; and
- whether the PRC government will permit Beijing Sohu 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 and Beijing Sohu will be able to obtain all of the licenses we or Beijing Sohu 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 or Beijing Sohu or our service providers or otherwise harm our business.

We depend upon contractual arrangements with Beijing Sohu, Hengda, Sohu-Guolian and High Century 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, Sohu-Guolian and High Century 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 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, Sohu-Guolian and High Century 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, owns Beijing Sohu, Hengda, Sohu-Guolian and High Century. 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 depend on online advertising for a significant portion of our revenues.

We derive a significant portion of our revenues from the sale of advertising on our Web sites. For the three months and six months ended June 30, 2003, advertising revenues represented approximately 35% and 33%, respectively, of our total revenues, as compared to 55% for both of the corresponding three and six month periods in 2002.

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.

We rely on e-subscription services for a significant portion of our revenues.

We derive a significant portion of our revenues from e-subscription services on our Web sites. For the three and six months ended June 30, 2003, e-subscription revenues represented approximately 59% and 60%, respectively, of our total revenues, as compared to 31% and 26% for the corresponding three and six month periods in 2002. We expect our reliance on e-subscription revenues to increase. Our business plan is dependent upon further increases in revenues from e-subscription services and the expansion of our subscriber base.

E-subscription revenue is derived principally from providing value added short messaging 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. Pursuant to contractual arrangements between Beijing Sohu 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 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, each operator remits the e-subscription fees, net of its service fees, for the month to Beijing Sohu which then transfers the funds to Beijing ITC, in order to allow the revenues to be included within our consolidated accounts.

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

- we provide short messaging 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 is currently in the process of establishing a new billing platform and may require us to switch to this platform in the third quarter of 2003 or 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 is unwilling to cooperate with us, we would not be able to find substitute partners.
- 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 online dating and friends matching service which we refer to as “Jiqinggongshe” or “GGMM”. 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.
- 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. 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. In each of the three months ended December 31, 2002, March 31, 2003 and June 30, 2003, a substantial portion of our e-subscriptions growth, especially as regards our GGMM product, was derived from using website union. As a result of our inability to use website union to promote our products, we expect minimal or no growth in e-subscriptions revenue for the three months ended September 30, 2003 as compared to the three months ended June 30, 2003 and, in addition, future growth in e-subscriptions revenue could be materially less than historical growth.
- 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.

Our e-commerce services may face certain business and regulatory risks.

For the three and six months ended June 30, 2003, e-commerce revenues represented approximately 5% and 6%, respectively, of our total revenues, as compared to 13% and 17% for the corresponding three and six 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.

In 2002, through High Century, we invested $3.1 million in Sohu-Guolian, a joint venture which provides services to the online trading and financial services industries.

The success of this investment depends, among other things, on the following factors:

- conditions and trading volumes in the China securities market which currently can be considered weak;
- the acceptability and development of online stock trading in China which is unknown at this time;
- expansion, which is dependent on the development of China's banking system (which currently does not allow for nation wide remote account opening);
- cooperation from Guolian Securities Co., Ltd., our joint venture partner, who we rely on to provide technical expertise, licensing and other resources to allow Sohu-Guolian to provide services; and
- future legislation to allow Sohu-Guolian to obtain its own online securities trading license (currently regulations do not exist which would allow Sohu-Guolian to obtain its own online trading license).

There is no assurance that Sohu-Guolian will be successful, and, in addition, we believe that it is unlikely that Sohu-Guolian will be profitable in 2003 or 2004.

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, many of which are beyond our control. 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. 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, short messaging 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 short messaging 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 short messaging 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 currently expect that we will need capital to fund additions to our portal and computer infrastructure, including any acquisitions of complementary assets, technologies or businesses we may pursue, as well as the expansion of our sales and marketing activities.

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 subscription revenue is generated through short messaging services where we depend on mobile network operators for message delivery and payment collection. If we were unable to continue this arrangement, our short messaging 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, short messaging 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.

Our advertising pricing model, which is based on charging a fixed fee to display advertisements for a specified time period, may not be profitable.

There are currently no industry standard pricing models used to sell advertising on the Internet. This makes it difficult to project our future advertising rates and revenues. The models we adopt may prove not to be profitable. A significant portion of our advertising revenues in 2003 and 2002 were derived from charging a fixed fee to display an advertisement over a given time period.

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 our wholly-owned operating subsidiaries to fund any cash requirements we may have.

We are a holding company with no operating assets other than investments in Beijing ITC, our wholly-owned subsidiary in the PRC and our affiliates Beijing Sohu, High Century, Hengda and Sohu-Guolian, which own and conduct our Internet business. We may rely on dividends and other distributions on equity paid by Beijing ITC for our cash requirements in excess of any cash raised from investors and retained by us. If Beijing ITC incurs debt on its own behalf in the future, the instruments governing the debt may restrict Beijing ITC's ability to pay dividends or make other distributions to us. In addition, PRC legal restrictions permit payment of dividends by Beijing ITC only out of its net income, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law, Beijing ITC is also required to set aside a portion of its net income each year to fund certain reserve funds. These reserves are not distributable as cash dividends.

Beijing ITC has incurred significant net losses since its inception. Therefore, we have not received any dividends or other distributions from Beijing ITC in the past and do not expect any dividends 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, subscription, short messaging and e-commerce services for a significant portion of our future revenues, but the Internet has not been proven as a widely accepted medium for advertising, subscription, short messaging or e-commerce services.

We expect to derive a significant portion of our revenue for the foreseeable future from online advertising, subscription, short messaging and e-commerce services. If the Internet is not accepted as a medium for advertising, subscription, short messaging or e-commerce services, our ability to generate revenues will be adversely affected.

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 advertising and e-commerce customers have only limited experience using the Internet for advertising or commerce 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 online advertising and e-commerce markets are new and rapidly evolving, particularly in China. As a result, many of our current and potential advertising and e-commerce customers have limited experience using the Internet for advertising or commerce purposes and historically have not devoted a significant portion of their advertising and sales budgets to Internet-based advertising and e-commerce. Moreover, customers 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 or sell their products on our portal if they do not perceive our online advertising and e-commerce 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.

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, short messaging 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.

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 foreign investors. 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, substantially all 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 third quarter through August 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 August 11, 2003, the closing price of our common stock was $30.19 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 35,620,367 shares of our common stock outstanding as of June 30, 2003, as well as options to purchase an additional 5,616,787 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 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 six months ended June 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, financial services 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, subject to the restrictions set forth in the Sarbanes-Oxley Act of 2002 with respect to loans to directors and executive officers.

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 are included in long term loans to related parties, 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. As of June 30, 2003, we had recorded a valuation allowance of $56,000 against long-term loans to related parties for losses incurred by Beijing Sohu.

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. These loans are included in long term loans to related parties. As of June 30, 2003, we had recorded a valuation allowance of $4,000 against long-term loans to related parties for losses incurred by High Century.

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. These loans are included in long term loans to related parties. As of June 30, 2003, we had recorded a valuation allowance of $3,000 against long-term loans to related parties for losses incurred by Hengda.

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. These loans are included in long term loans to related parties.

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 will provide technical services to the PRC online securities trading and financial services industries. As of June 30, 2003, we had recorded a valuation allowance of $398,000 against long-term loans to related parties for losses incurred by Sohu-Guolian.

As of June 30, 2003, payable to related parties included $1,009,000 payable to Hengda, as Hengda had transferred its unused cash to Sohu. Sohu may be required to repay these funds at any time.

(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 June 30, 2003, unrealized gains of $558,000 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 June 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

On May 23, 2003, Sohu held its Annual Meeting of Stockholders. At the meeting, the stockholders elected as directors Charles Zhang (with 27,506,426 affirmative votes and 3,776,408 votes withheld), George Chang (with 31,278,609 affirmative votes and 4,225 votes withheld) and Charles Huang (with 31,278,314 affirmative votes and 4,520 votes withheld).

The stockholders also ratified the appointment of PricewaterhouseCoopers as Sohu’s independent accountants for the fiscal year ending December 31, 2003 (with 15,244,350 shares voting for, 4,125 against, and 1,140 abstaining).

ITEM 5. OTHER INFORMATION

Subsequent event

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 $87,750,000 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 will be convertible into Sohu’s common stock at a conversion price of $44.76 per share, subject to adjustment. Each $1,000 principal amount at maturity will initially be 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. The notes and the common stock issuable upon conversion of the notes have not been registered under the U.S. Securities Act of 1933 or the securities laws of any other jurisdiction. Unless they are registered, 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. Sohu has agreed to file with the Securities and Exchange Commission a registration statement covering resales of the notes and the shares of common stock issuable upon conversion of the notes.

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 April 29, 2003, Sohu filed a Current Report on Form 8-K in connection with its earnings results press release and the conference call hosted by Sohu’s management discussing the release.

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SIGNATURES

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

Dated: August 12, 2003

SOHU.COM INC.

By: /s/Derek Palaschuk

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

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Sohu.com Inc.
Quarterly Report on Form 10-Q For Quarter Ended June 30, 2003

EXHIBITS INDEX

10.1	Loan and Share Pledge Agreement between Sohu.com Inc. and Jinmei He dated June 9, 2003
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

Exhibit 10.1

Loan and Share Pledge Agreement

between

Sohu.com, Inc.

and

He Jinmei

June 2003

THIS LOAN AND SHARE PLEDGE AGREEMENT (this "**Agreement**") is entered into on this 9th day of June 2003 in Beijing, People's Republic of China ("**PRC**")

among

(1) **Sohu.com, Inc.**, a U.S. corporation, of Delaware, U.S. ("**Party A**"),

and

(2) **He Jinmei**, a PRC citizen whose ID number is 510103197003077369 and residential address is 1-2-301, 17 Dujiakan, Fengtai, Beijing, PRC ("**Party B**")

(individually a "**Party**" and together the "**Parties**").

<u>RECITALS</u>

A. Party B and Beijing Century High-Tech Investment Co., Ltd wish to establish a domestic limited liability company in Beijing, PRC ("**Domestic Company**"), in which they will hold 20% and 80% equity, respectively.

B. The Domestic Company will be established to engage in the business of Internet information services, Internet technology services, e-commerce, technology development, consulting, and training.

C. Party B wishes to borrow the amount specified in Article 2.1 below (the "**Loan**") from Party A, and Party A has agreed to provide the Loan to Party B on an interest-free basis, for the sole purpose of establishing the Domestic Company and developing the Domestic Company's business, which shall specifically include the entering into of a series of agreements with Party A and its Affiliates (as defined below).

D. As security for the Loan and their performance of this Agreement, Party B has agreed to pledge her portion of the equity interest in the Domestic Company (the "**Shares**") to Party A.

NOW, THEREFORE, the Parties agree as follows:

1. <u>DEFINITIONS AND INTERPRETATIONS</u>

1.1 **Definitions.** Unless otherwise indicated, the following terms in this Agreement shall have the meanings set forth below:

"Affiliate" any affiliate entity or business associate of Party A, including without limitation the WFOE – Sohu ITC Information Technology (Beijing) Co., Ltd.

"Certificate" as defined in Article 3.1.9;

"Conversion Date" as defined in Article 7.2.1;

"Conversion Notice" as defined in Article 7.1;

"Designee" an individual, corporation or other appropriate entity designated by Party A to be the recipient of a Share Transfer;

"Event of Default" as defined in Article 6;

"Loan Date" with respect to Party B, the date on which the portion of the Loan amount borrowed by Party B is paid into her designated bank account;

"PRC Law" any published and available laws and regulations of the PRC;

"Repayment Date" as defined in Article 2.3;

"RMB" Renminbi, the lawful currency of the PRC;

“Share Transfer” as defined in Article 7.2.1;

“USD” United States Dollar, the lawful currency of the United States of America.

“WFOE” A wholly-owned subsidiary established by Party A in the PRC.

1.2 **Interpretations.** The headings herein are for reference purposes only and do not affect the meaning or interpretation of any provision hereof. Any reference herein to an Article or Appendix is to an article or appendix of this Agreement. The use of the plural shall include the use of the singular, and vice versa. Unless otherwise indicated, a reference herein to a day, month or year is to a calendar day, month or year. A reference to a business day is to a day on which commercial banks are open for business in both the PRC and the U.S. The use of the masculine shall include the use of the feminine, and vice versa.

2. AMOUNT AND REPAYMENT OF THE LOAN

2.1 **Loan Amount.** Party A agrees, subject to the terms and conditions of this Agreement, to cause its Affiliate to extend the Loan to Party B in a total amount of RMB1,000,000. The Loan shall be interest-free.

2.2 **Provision of Loan.** The Loan shall be deemed to have been provided to Party B on the Loan Date.

2.3 **Date of Repayment.** The Loan, together with any other moneys owing under this Agreement by Party B, shall become repayable upon the earliest to occur of any of the following events (each a “**Repayment Date**”):

2.3.1 in full, on the occurrence of an Event of Default;

2.3.2 in full, on the resignation or removal of Party B from the position of director, general manager, supervisor of the Domestic Company;

2.3.3 in full, with respect to Party B, the date on which such Party’s employment relationship with Party A or any Affiliate terminates for any reason;

2.3.4 in full, where Party A intends to replace this Agreement with another agreement, the date of the written notice from Party A to Party B confirming such intention; or

2.3.5 in full or in part, at Party A’s sole discretion upon any date selected by Party A after the second anniversary of the date of signing of this Agreement.

2.4 **Method of Repayment.** Repayment will be made only by means of converting the Loan into Shares, as described in Article 7 below, with the final amount of the Loan being due and repayable on the final Conversion Date. The Loan may not be repaid prior to the Repayment Date or by any means not specifically permitted in this Article 2.4 without the express written consent of Party A.

3. UNDERTAKINGS AND WARRANTIES OF PARTY B

3.1 **Undertakings and Warranties.** Party B hereby undertakes and warrants to Party A that:

3.1.1 the Loan will be used solely for the purpose of establishing the Domestic Company and developing its business activities;

3.1.2 she shall use the proceeds from the Loan solely for the purpose of contributing her amount of the registered capital in the Domestic Company;

3.1.3 she has and shall maintain the full power and authority to enter into this Agreement, to borrow the Loan and to perform her obligations hereunder;

3.1.4 there are no civil or criminal, claims, actions, suits, investigations or proceedings pending or, to her knowledge, threatened against her;

3.1.5 there is no provision of any Agreement, enforceable judgement or order of any court binding on her or affecting her property, which would in any way prevent or materially adversely affect her execution or performance of this Agreement;

3.1.6 the execution and performance of this Agreement and the realization of Party A's rights hereunder will not violate any mortgage right, contract, judgement, decree or law which is binding upon her or her assets;

3.1.7 upon her investment in the Domestic Company, she shall be the sole legal and beneficial owner of his Shares, free and clear of all pledges and encumbrances other than the security interest created by this Agreement;

3.1.8 she shall cause the pledge of her respective Shares to Party A to be recorded on the Domestic Company's register of shareholders;

3.1.9 upon the establishment of the Domestic Company, she shall provide to Party A a certificate from the Domestic Company evidencing her ownership of the Shares (a "**Certificate**") together with an Assignment Agreement, substantially in the form attached hereto as an Appendix;

3.1.10 for the duration of this Agreement, she will not cause the Domestic Company, without the written consent of Party A, to engage directly or indirectly in any business activities which compete with those of Party A other than those described in Recital B above;

3.1.11 she will, at any time and at Party A's expense, defend the Shares against any third party claims;

3.1.12 without the consent of Party A, except as expressly permitted hereunder, she will not arrange for or otherwise permit or cause the issuance of any new shares of capital stock of the Domestic Company;

3.1.13 she shall do or cause to be done all such acts, and execute or cause to be executed any necessary documents and registrations, such that the conversion of the Loan, the Share Transfers and all other transactions contemplated hereunder are effected in a legal and valid manner; and

3.1.14 she shall maintain as strictly confidential the existence and provisions of this Agreement, as well as of any correspondence, resolutions, ancillary agreements and any other documentation associated herewith.

4. COVENANTS

4.1 **Affirmative Covenants.** Party B hereby covenants that she will furnish to Party A, within 10 days after the end of each month after the Domestic Company has been established, with financial statements of the Domestic Company and such additional information as Party A may from time to time reasonably request

4.2 **Further Covenants**. Party B further covenants that, from the date hereof until full repayment of the Loan has been effected, she will not, and will ensure that the Domestic Company does not, except with the prior written consent of Party A:

4.2.1 incur or assume any debt that is not due and payable in the ordinary course of its business (except indebtedness to Party A hereunder or as otherwise specifically permitted hereunder);

4.2.2 incur or assume any mortgage, pledge or other encumbrance of any kind upon any assets of the Domestic Company, whether now owned or hereafter acquired;

4.2.3 enter into any agreement, arrangement, commitment or understanding to, or actually acquire all or part of the substantial assets of any third party;

4.2.4 enter into any agreement, arrangement, commitment or understanding to, or actually sell, lease, or otherwise dispose of any assets of the Domestic Company except in the ordinary course of business;

4.2.5 enter into any agreement, arrangement, commitment or understanding to, or actually, make loans or advances to any third party;

4.2.6 enter into any agreement, arrangement, commitment or understanding to, or actually, assume, guarantee, endorse or otherwise become liable for the obligation of any third party or other entity; or

4.2.7 permit the Domestic Company to conduct any business not expressly described in Recital B of this Agreement.

4.3 **Rights of Party A.**

4.3.1 Party B agrees that she shall obtain Party A's written approval prior to undertaking any of the following, namely:

4.3.1.1 appointing and removing the directors of the Domestic Company;

4.3.1.2 appointing and removing the general manager of the Domestic Company; and

4.3.1.3 approving the terms of employment of the general manager.

4.3.2 Party B agrees that she shall obtain Party A's written approval prior to undertaking any of the following, namely:

4.3.2.1 appointing and removing of the senior management personnel and any key personnel of the Domestic Company; and

4.3.2.2 approving the terms of employment of the senior management personnel and key personnel of the Domestic Company.

5. SHARE PLEDGE

5.1 **Share Pledge.** As security for the performance in full of the obligations of Party B under this Agreement, Party B hereby pledges to Party A, and creates in favor of Party A or the Designee (as appropriate), a first priority security interest in all of the rights, title and interest in and to:

5.1.1 the Shares; and

5.1.2 all of her incidental rights with respect to the Shares, now or hereafter acquired.

Such security interest is to be perfected by compliance by Party B with Article 3.1.9 of this Agreement.

5.2 **Power of Attorney.** Party B hereby irrevocably grants to Party A or the Designee (as appropriate) full power of attorney for the purpose of carrying out the provisions of this Agreement, as well as taking any action and executing any instrument which Party A in good faith deems necessary to accomplish for purposes of this Agreement.

6. EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute a default of the Loan hereunder and a breach of this Agreement by Party B (as appropriate) (an "**Event of Default**"):

6.1 a Share Transfer has not been effected by Party B within 20 working days after the corresponding Conversion Date or such time as may otherwise be agreed upon by the Parties;

6.2 Party B is in breach of any of the terms and conditions hereof, and such breach has not been rectified for a period of 10 days after receipt of Party A's written notice requesting such rectified;

6.3 any undertaking or warranty made by Party B herein shall prove to have been false or misleading in any material respect;

6.4 Party B makes any arrangement with her respective creditors or takes or suffers any similar action in consequence of debt; or

6.5 any judgment is made under any applicable law against Party which exceeds USD 50,000.

7. LOAN CONVERSION

7.1 **Share Conversion.** As of the Repayment Date, the Loan shall be convertible into Shares on the basis that 100 percent of the Loan amount equals 100 percent of the Shares. For the avoidance of doubt, if 10 percent of the Loan were repayable by Party B, then Party B would be required to transfer 10% of the total number of the Shares to Party A. The Loan shall become repayable to such extent as Party A may from time to time request, until the entire Loan amount has been repaid. Party A shall request to convert all or a percentage of the Loan by means of a written notice to Party B that specifies the percentage of the Loan to be converted into Shares ("**Conversion Notice**").

7.2 **Share Transfer.**

7.2.1 Within 20 working days after receipt of a Conversion Notice ("**Conversion Date**"), Party B shall effect the transfer of the portion of the Shares designated in the Conversion Notice, either to Party A directly or to the Designee specified by Party A in the Conversion Notice (each a "**Share Transfer**").

7.2.2 For the avoidance of doubt, upon the completion of the conversion of the Loan and the transfer of all of the Shares of Party B (whether pursuant to this Article 7 or an Event of Default), Party A shall hold as many of the Shares as is permissible under PRC Law, and the remainder of the Shares (if applicable) shall be held by the Designees, with Party B no longer holding any Shares. At such time, this Agreement shall be deemed to have terminated, and the obligations of Party B hereunder to have been fulfilled (with the exception of those under 3.1.13 and 3.1.14).

7.3 **Delay.** Party B undertakes to notify Party A immediately of any delay in effecting a Share Transfer or completing the procedures described in Article 7.2 above, together with the reason for such delay and revised effective date of the Share Transfer.

7.4 **Repayment of Loan.** The corresponding portion of the Loan shall be deemed to have been repaid as of the effective date of each Share Transfer. Once Party B has completed the Share Transfer in accordance with the provisions of this Article 7, the Loan shall be deemed to have been repaid in full and Party B shall be deemed to have performed her repayment obligations hereunder.

8. MISCELLANEOUS

8.1 **Notices and Delivery.** All notices and communications among the Parties shall be made in writing and in the English language by facsimile transmission with confirmation of transmission, delivery in person (including courier service) or registered airmail letter to the appropriate correspondence addresses set forth below:

<u>Party A</u>
Sohu.com, Inc.
15/F, Tower 2, Bright China Chang An Building, 7 Jianguomen Nei Avenue, Beijing 100005
Tel : 8610-6510-2160
Fax : 8610-6510-2159

<u>Party B</u>
He Jinmei

Tel : 8610-6510-2160

8.2 **Timing.** The time of receipt of the notice or communication shall be deemed to be:

8.2.1 If by facsimile transmission with confirmation of transmission, at the time displayed in the corresponding transmission record, unless such facsimile is sent after 5:00 p.m. or on a non-business day in the place where it is received, in which case the date of receipt shall be deemed to be the following business day;

8.2.2 if in person (including express mail), on the date that the receiving Party or a person at the receiving Party's address signs for the document; or

8.2.3 if by registered mail, on the 10th day after the date that is printed on the receipt of the registered mail.

8.3 **Payments.** All amounts payable by Party B hereunder shall be paid in RMB.

8.4 **Amendments.** The provisions of this Agreement may not be waived, modified or amended except by an instrument in writing signed by the Parties (which instrument shall be attached as an Appendix hereto).

8.5 **No Waiver.** Failure or delay on the part of any Party to exercise any right under this Agreement shall not operate as a waiver thereof.

8.6 **Severability.** The invalidity of any provision of this Agreement shall not affect the validity of any other provision of this Agreement which is unrelated to that provision.

8.7 **Survival.** The confidentiality obligations of the Parties hereunder shall remain in full force and effect regardless of the termination of this Agreement for any reason.

8.8 **Taxes and Duties.** Party A shall be responsible for all stamp duties and other governmental fees, taxes and reasonable out-of-pocket expenses (including reasonable legal fees) incurred by the Parties in connection with the conversion of the Loan and each Share Transfer made hereunder and in the preparation of this Agreement.

8.9 **Successors.** This Agreement shall be binding upon the Parties and upon their respective successors and assigns (if any).

8.10 **Assignment.** Party B may neither assign nor otherwise transfer his rights or obligations under this Agreement without the prior written consent of Party A.

8.11 **Governing Law.** The execution, validity, interpretation and implementation of this Agreement and the settlement of disputes thereunder shall be governed by PRC Law.

8.12 **Arbitration.** All disputes arising out of or in connection with this Agreementshall be finally settled under the Rules of Arbitration of the International Chamber of Commerce as administered by the International Court of Arbitration of the International Chamber of Commerce in Hong Kong by a sole arbitratorappointed in accordance with the said Rules conducted in the English language.

8.13 **Entire Agreement.** This Agreement and the Appendix hereto constitute the entire agreement between the Parties and supersede all prior discussions, negotiations and agreements. The Appendix form an integral part hereof and have the same legal effect as this Agreement. If there is any inconsistency between the provisions of this Agreement and any of the Appendix, the provisions of this Agreement shall prevail to the extent of such inconsistency.

8.14 **Language.** This Agreement will be signed in 3 sets of originals in the Chinese and English languages, with 1 original for each Party. The two language versions shall have equal validity and the wording of each version shall be deemed to carry the same meaning. In the event of any discrepancy between the wordings of the said two versions, such discrepancy shall be interpreted according to the purpose of this Agreement and based on the English text.

IN WITNESS WHEREOF, the Parties hereto have executed or caused this Agreement to be executed by their duly authorised representatives (as the case may be) as of the date first indicated above.

For and on behalf of Sohu.com, Inc.

By /s/Derek Palashcuk

Name: Derek Palaschuk
Title: Chief Financial Officer

By He Jinmei

/s/He Jinmei

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 th 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: August 12, 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: August 12, 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 June 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 June 30, 2003 and results of operations of the Company for the three and six months ended June 30, 2003.

/s/ Dr. Charles Zhang

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

August 12, 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 June 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 June 30, 2003 and results of operations of the Company for the three and six months ended June 30, 2003.

/s/ Derek Palaschuk

Derek Palaschuk, Senior Vice
President and Chief Financial Officer

August 12, 2003