

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

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)

7 Jianguomen Nei Avenue
Suite 1519, Tower 2
Bright China Chang An Building
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 [x] No []

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

<u>Class</u>	<u>Outstanding at November 14, 2000</u>
Common stock, \$.001 par value	35,625,716

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2000	December 31, 1999
ASSETS		
Current assets		
Cash and cash equivalents	\$ 70,061	\$ 3,924
Accounts receivable, net	1,669	438
Prepaid expenses and other current assets	3,026	126
Total current assets	74,756	4,488
Fixed assets, net	4,506	999
Other assets, net	1,846	1,589
Total assets	\$ 81,108	\$ 7,076
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 1,449	\$ 500
Accrued liabilities	2,615	1,411
Total current liabilities	4,064	1,911
Commitments and contingencies (Note 7)		
Mandatorily redeemable convertible preferred stock	-	10,207
Shareholders' equity (deficit)		
Preferred stock	-	3
Common stock	31	9
Additional paid-in capital	98,151	382
Deferred stock compensation and other	(842)	(22)
Accumulated deficit	(20,296)	(5,414)
Total shareholders' equity (deficit)	77,044	(5,042)
Total liabilities and shareholders' equity (deficit)	\$ 81,108	\$ 7,076

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

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

	Three months ended Sept 30, 2000	Three months ended Sept 30, 1999	Nine months ended Sept 30, 2000	Nine months ended Sept 30, 1999
Revenues	\$ 1,602	\$ 401	\$ 3,774	\$ 1,068
Operating expenses:				
Cost of revenues	1,578	494	3,561	938
Product development	603	116	1,494	255
Sales and marketing	2,399	465	6,870	754
General and administrative	1,435	377	3,215	790
Stock-based compensation *	8	6	446	42
Total operating expenses	6,023	1,458	15,586	2,779

Operating loss	(4,421)	(1,057)	(11,812)	(1,711)
Other non operating expense	(526)	-	(526)	-
Interest income (expense), net	937	(8)	1,370	4
Net loss	(4,010)	(1,065)	(10,968)	(1,707)
Accretion on mandatorily redeemable preferred stock	(249)	(118)	(3,914)	(346)
Net loss attributable to common stockholders	\$ (4,259)	\$ (1,183)	\$ (14,882)	\$ (2,053)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.16)	\$ (0.13)	\$ (0.97)	\$ (0.22)
Shares used in computing basic and diluted net loss per share	27,194	9,406	15,407	9,352
Basic and diluted pro forma net loss per share	\$ (0.13)		\$ (0.40)	
Shares used in computing basic and diluted pro forma net loss	30,374		27,718	
* Stock-based compensation				
Cost of revenues	-	1	6	11
Product development	-	2	4	11
Sales and marketing	22	2	52	13
General and administrative	(14)	1	384	7
	8	6	446	42

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS OF US DOLLARS)

	Nine months ended September 30, 2000	Nine months ended September 30, 1999
Cash flows from operating activities:		
Net loss	(10,968)	(1,707)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss (gain) on disposal of fixed assets	28	(3)
Depreciation and amortization	886	164
Stock-based compensation expense	446	42
Services rendered by shareholder	-	60
Changes in assets and liabilities:		
Accounts receivable	(1,231)	(355)
Prepays and other current assets	(2,900)	(60)
Accounts payable	949	430
Accrued liabilities	1,204	623
Net cash used in operating activities	(11,586)	(806)
Cash flows from investing activities:		
Acquisition of fixed assets	(4,344)	(1,000)
Acquisition of other assets	(456)	(391)
Disposal of fixed assets	122	7
Net cash used in investing activities	(4,678)	(1,384)
Cash flows from financing activities:		
Issuance of convertible promissory notes – related party	-	1,500
Issuance of mandatorily redeemable convertible preferred stock	29,947	-
Issuance of common stock	52,454	7
Net cash provided by financing activities	82,401	1,507

Net increase/(decrease) in cash and cash equivalents	66,137	(683)
Cash and cash equivalents at beginning of period	3,924	1,232
Cash and cash equivalents at end of period	70,061	549

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

SOHU.COM INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(IN US DOLLARS, UNAUDITED)

1. THE COMPANY AND BASIS OF PRESENTATION

Sohu.com Inc. ("Sohu" or the "Company") was incorporated in Delaware, USA in August 1996 under the name of Internet Technologies China Incorporated, and changed its name to Sohu.com Inc. in September 1999.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the three and nine months ended September 30, 2000 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. RECENT ACCOUNTING PRONOUNCEMENT

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the SEC issued SAB No. 101B to defer the effective date of the implementation of SAB No. 101 until the last quarter of 2000 with earlier application encouraged. The Company does not expect the adoption of SAB 101 to have a material effect on its financial position or results of operations.

3. STOCK SPLITS

On October 15, 1999, the Company effected a five-for-one split of its outstanding capital stock, and on June 22, 2000, the Company effected a 2.6-for-one split of its outstanding capital stock. All shares and per share amounts have been retroactively adjusted to reflect these stock splits.

4. NET LOSS PER SHARE

Net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Since the Company has a net loss for all periods presented, net loss per share on a diluted basis is equivalent to basic net loss per share because the effect of converting stock options, warrants and mandatorily redeemable convertible preferred stock would be anti-dilutive. Pro forma basic and diluted net loss per share is computed as described above and also gives effect, under SEC guidance, to the automatic conversion of all outstanding shares of mandatorily redeemable convertible preferred stock (using the if-converted method) in connection with the Company's initial public offering in July 2000.

5. INITIAL PUBLIC OFFERING

On July 17, 2000, the Company completed an underwritten initial public offering of 4,600,000 shares of common stock at \$13 per share for total proceeds of \$59.8 million. All shares of common stock were offered by the Company. After deducting underwriting commissions of \$4.2 million and other offering expenses of approximately \$3.1 million, net proceeds to the Company were \$52.5 million. Simultaneously with the closing of the initial public offering, all 14,194,440 shares of preferred stock outstanding prior to the offering converted automatically into 17,208,550 shares of common stock. Subsequent to the initial public offering and at September 30, 2000, there were 31.2 million shares of common stock outstanding.

6. SUBSEQUENT EVENTS

On October 18, 2000, Sohu completed its acquisition of all of the capital stock of ChinaRen, Inc., a California corporation ("ChinaRen"), by means of a merger (the "Merger") of Alpha Sub Inc., a California corporation ("Merger Sub"), with and into ChinaRen, pursuant to the Agreement and Plan of Merger dated as of September 13, 2000 (the "Merger Agreement") among Sohu, Merger Sub and ChinaRen. As a result of the Merger, ChinaRen became a wholly-owned subsidiary of Sohu. The Merger was effected by the filing of an agreement of merger with the Secretary of State of California on October 18, 2000. ChinaRen is a Web portal directed at residents of the People's Republic of China.

Pursuant to the terms of the Merger Agreement, upon the closing of the transaction on October 18, 2000, Sohu issued an aggregate of 4,401,500 shares of Sohu common stock (the "Shares") and \$83.13 in cash in lieu of fractional shares of Sohu common stock in exchange for all of the outstanding shares of capital stock of ChinaRen. In accordance with the terms of the Merger Agreement, 1,229,685 of the Shares (all owned by the founders of ChinaRen) have been placed in escrow for a one-year period to secure certain indemnification and other obligations of such founders under the Merger Agreement. The Shares were issued in a private placement without registration under the Securities Act of 1933, as amended.

Also, pursuant to the terms of the Merger Agreement, upon the effective time of the Merger, Sohu granted to holders of all options, outstanding immediately prior to the effective time of the Merger, for the purchase of shares of ChinaRen common stock ("ChinaRen Options") options for the purchase of shares of Sohu common stock ("Sohu Options"), and all of the ChinaRen Options were cancelled. Sohu has reserved 226,370 shares of Sohu common stock for issuance upon exercise of the Sohu Options granted in connection with the Merger.

The acquisition will be accounted for as a purchase.

7. COMMITMENTS AND CONTINGENCIES

On July 12, 2000, Dr. Charles Zhang, the Company's founder, President and Chief Executive Officer, agreed with Pacific Century Cyberworks Limited, an affiliate of one of the holders of the Company's Series D preferred stock, to procure Sohu.com Inc. to purchase within a period of three years not less than \$6.0

million of services, including but not limited to, broadband, web distribution, advertising, consultancy services and such other services, from Pacific Century Cyberworks Limited and its affiliated group companies at their then current fees and charges.

The People's Republic of China ("PRC") 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 online advertising in the PRC. Though the PRC has, since 1978, implemented wide range 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 regarding the specific segments of these industries in which foreign owned entities, like the Company, may operate, although the scope of some of these restrictions is unclear. The Company's legal structure and scope of operations in China could be subjected to restrictions which could result in severe limits to the Company's ability to conduct business in the PRC and this could have a material adverse effect on the Company's financial position, results of operations and cash flows.

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

As used in this quarterly report, references to "us", "we", "our", "our company", "Sohu" and "Sohu.com" are to Sohu.com Inc., our subsidiary Sohu ITC Information Technology (Beijing) Co., Ltd. and our affiliate Beijing Sohu Online Network Information Services, Ltd., and these references should be interpreted accordingly. Except where the context requires otherwise, these references include all of our subsidiaries. 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" set forth herein.

OVERVIEW

Sohu, having introduced the first Chinese language online directory, is a leading Internet portal in China in terms of brand recognition, page views and registered users. We averaged 28 million page views per day for the month of September, a 75% increase from 16 million per day averaged in June, repeating the sequential growth of the previous two quarters. Registered users totaled 5 million as of September 30, 2000, up 53% from the 3.3 million users registered as of June 30, 2000. Our online directory contained over 300,000 Chinese language Web listings as of September 30, 2000. Our portal consists of the following:

- sophisticated Chinese language Web navigational and search capabilities utilizing proprietary technology;
- fifteen main content channels containing multi-level sub-channels that cover a comprehensive range of topics, including news, business, entertainment, sports and career;
- Web-based communications and community services providing free Chinese language e-mail, online bulletin boards, chat rooms and instant messaging; and
- a platform for e-commerce services.

We were incorporated in Delaware, USA during August 1996 as Internet Technologies China Incorporated and in September 1999 we were re-named Sohu.com Inc.

We have incurred significant net losses and have negative cash flows from operations since inception. These losses have been funded with proceeds of preferred stock private placements. We intend to significantly increase spending on marketing and brand development, content enhancements and technology and infrastructure. As a result, we anticipate net losses to increase significantly in the foreseeable future. We anticipate funding these expected losses with the remaining proceeds from the preferred stock private placements and the proceeds from our initial public offering completed in July 2000.

Significant events in the 3 months ended September 30, 2000:

On July 12, 2000, Dr. Charles Zhang, our founder, President and Chief Executive Officer, agreed with Pacific Century Cyberworks Limited, an affiliate of one of the holders of our Series D Convertible Preferred Stock, to procure Sohu.com Inc. to purchase within a period of three years not less than \$6 million of services, including but

not limited to, broadband, web distribution, advertising, consultancy services and such other services, from Pacific Century Cyberworks Limited and its affiliated group companies at their then current fees and charges.

On July 17, 2000, we completed an underwritten initial public offering of 4,600,000 shares of common stock at \$13 per share for total proceeds of \$59.8 million. All shares of common stock were offered by us. After deducting underwriting commissions of \$4.2 million and other offering expenses of \$3.1 million, our net proceeds were \$52.5 million. Simultaneously with the closing of the initial public offering, all 14,194,440 shares of preferred stock outstanding prior to the offering converted automatically into 17,208,550 shares of common stock. Subsequent to the initial public offering and at September 30, 2000, there were 31.2 million shares of common stock outstanding.

On September 13, 2000, we entered into an Agreement and Plan of Merger with Alpha Sub Inc., a California corporation, and ChinaRen, Inc., a California corporation. As more fully described in Note 6 to the condensed consolidated financial statements, the transaction was completed on October 18, 2000 and ChinaRen became our wholly-owned subsidiary.

On September 20, 2000, we entered into an interim loan agreement for up to \$2,000,000 with ChinaRen as borrower. As of September 30, 2000, we had loaned \$1 million to ChinaRen under this agreement and as of the closing of our acquisition of ChinaRen on October 18, 2000, we had loaned ChinaRen an additional \$.8 million.

Total employees were 382 at September 30, 2000, an increase of 62 from the 320 employees at June 30, 2000.

RESULTS OF OPERATIONS FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2000 AND 1999

REVENUES

Revenues increased by \$1.2 million to \$1.6 million for the three months ended September 30, 2000 and increased by \$2.7 million to \$3.8 million for the nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999. Sales increased due to higher dollar advertising contracts and more new customers.

COSTS AND EXPENSES

Cost of Revenues

Cost of revenues increased by \$1.1 million to \$1.6 million for the three months ended September 30, 2000 and increased by \$2.6 million to \$3.6 million for the nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999. The increases in the cost of revenues for the periods indicated were a result of the ongoing development of our Web site over the past year. We incurred additional personnel costs associated with increasing the breadth and depth of our channel and feature offerings, higher bandwidth leasing charges due to leasing of additional bandwidth from the Beijing Telecom Administration and higher hardware and software amortization costs associated with the acquisition of additional servers and storage devices.

Product Development Expenses

Product development expenses increased by \$487,000 to \$603,000 for the three months ended September 30, 2000 and increased by \$1.2 million to \$1.5 million for the nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999. The increases in product development expenses for the three and nine months ended September 30, 2000 as compared to the corresponding periods ended September 30, 1999 are attributable to increased staffing costs and associated support for engineers.

Sales and Marketing Expenses

Sales and marketing expenses increased by \$1.9 million to \$2.4 million for the three months ended September 30, 2000 and increased by \$6.1 million to \$6.9 million for the nine months ended September 30, 2000 as compared to

the corresponding three and nine month periods in 1999. The increase in sales and marketing expenses for the three and nine months ended September 30, 2000 as compared to the corresponding periods ended September 30, 1999 are attributable to the launch of new advertising campaigns, including print, radio and billboard advertising and hosting of promotional events as well as an increase in personnel costs associated with the expansion of sales and marketing staff. For the September 30, 2000 quarter our registered user base increased by 1.7 million to 5 million at a cost per new subscriber of \$1.36.

Sales and marketing costs are expected to increase in the future as we enhance our brand and attract new users. The largest component of sales and marketing expense is third party promotional spending which is closely tied to new user growth.

General and Administrative Expenses

General and administrative expenses increased by \$1.1 million to \$1.4 million for the three months ended September 30, 2000 and increased by \$2.4 million to \$3.2 million for the nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999. The increases in general and administrative expenses for the three and nine months ended September 30, 2000 as compared to the corresponding periods ended September 30, 1999 are attributable to increased staffing, office space expansion and professional fees.

The expansion of the Guangzhou and Shanghai offices and the opening of new offices in Hong Kong, Silicon Valley and other parts of China to conduct sales and marketing, and to assist us in developing content partner relationships, may result in our hiring of additional staff and purchasing additional office equipment and computer and networking equipment, all of which will increase general and administrative expenses.

Stock Based Compensation Expense

Stock based compensation expense increased by \$2,000 to \$8,000 for the three months ended September 30, 2000 and increased by \$404,000 to \$446,000 for the nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999. The increases in stock based compensation expense for the three and nine months ended September 30, 2000 as compared to the corresponding periods ended September 30, 1999 are attributable to January 2000 stock option grants where the exercise price was less than the fair market value of the stock on the grant date.

Operating Loss

As a result of the foregoing, we had an operating loss of \$11.8 million for the nine months ended September 30, 2000 compared to \$1.7 million for the same period in 1999, and an operating loss of \$4.4 million for the three months ended September 30, 2000 compared to \$1.1 million for the same period in 1999.

Other Non-operating Expenses

Other non-operating expenses increased from \$0 to \$526,000 for the three months and nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999, due to a \$500,000 write down of a long term investment and a \$26,000 loss on the disposal of fixed assets.

Interest Income (Expense), Net

Interest income, net, increased by \$945,000 to \$937,000 for the three months ended September 30, 2000 and increased by \$1.37 million to \$1.40 million for the nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999. The increases are attributable to higher cash and short-term investment balances as a result of net proceeds from the sale of our Series D Convertible Preferred Stock in February 2000 and our initial public offering completed in July 2000.

Net loss, Accretion On Mandatorily Redeemable Preferred Stock and Net loss Attributable to Common Stockholders

As a result of the foregoing, we had a net loss of \$11.0 million for the nine months ended September 30, 2000 compared to \$1.7 million for the same period in 1999, and a net loss of \$4.0 million for the three months ended September 30, 2000 compared to \$1.1 million for the same period in 1999.

Accretion on mandatorily redeemable preferred stock increased by \$131,000 to \$249,000 for the three months ended September 30, 2000 and increased by \$3.6 million to \$3.9 million for the nine months ended September 30, 2000 as compared to the corresponding three and nine month periods in 1999. The increases resulted from the fact that the majority of the accretion is attributable to the Series C Convertible Preferred Stock issued in October 1999 and the Series D Convertible Preferred Stock issued in February 2000, and therefore did not affect the 1999 three or nine month results. As all mandatorily redeemable preferred stock was converted into to common stock upon the completion of our initial public offering in July 2000, accretion will not be booked subsequent to that date.

Net loss attributable to common stockholders was \$14.9 million for the nine months ended September 30, 2000 compared to \$2.1 million for the same period in 1999, and net loss attributable to common stockholders was \$4.3 million for the three months ended September 30, 2000 compared to \$1.2 million for the same period in 1999.

LIQUIDITY AND CAPITAL RESOURCES

From inception to September 30, 2000, we financed net cash used in operating and investing activities of approximately \$21.5 million primarily through net proceeds of \$39.2 million from preferred stock private placements. As of September 30, 2000, we had \$70.1 million in cash and cash equivalents consisting principally of remaining proceeds from the preferred stock private placements and approximately \$52.5 million in net proceeds from our initial public offering completed in July 2000.

Net cash used in operating activities during the nine months ended September 30, 2000 increased by \$10.8 million to \$11.6 million as compared to the nine months ended September 30, 1999. This increase was due to costs associated with increases in personnel, overhead and increased sales and marketing initiatives associated with the development of Sohu. In September 2000, we made an interim loan to ChinaRen of \$1,000,000 which was increased to \$1.8 million prior to the October 18, 2000 closing of our acquisition of ChinaRen. Accounts receivable increased from \$438,000 at December 31, 1999 to \$1.7 million at September 30, 2000 because of higher sales during the nine months ended September 30, 2000 and an increase in number of days outstanding from an average of 55 days during 1999 to 78 days at September 30, 2000. We expect our acquisition of ChinaRen to increase cash used in operating activities by approximately \$800,000 per month.

Net cash used in investing activities during the nine months ended September 30, 2000 increased by \$3.3 million to \$4.6 million as compared to the nine months ended September 30, 1999. This increase was due to the purchase of computer equipment, servers, leasehold improvements, other fixed assets, computer software and a long term investment. During the nine months ended September 30, 2000, we invested \$4.3 million in fixed assets and expect to make total fixed asset and capital purchases for the year 2000 of approximately \$7.0 million.

Net cash provided by financing activities during the nine months ended September 30, 2000 increased by \$80.9 million to \$82.4 million as compared to the nine months ended September 30, 1999. This increase was due to net proceeds of \$29.9 million from the issuance of Series D Convertible Preferred Stock and of \$52.5 million from the completion of our initial public offering.

Our principal commitments consist of obligations under various operating leases for office facilities. Operating leases commitments will increase due to continued growth in operations and staffing. We expect that capital expenditures in 2000 and 2001 will primarily consist of purchases of additional servers, computer software, workstations, technological improvements to network infrastructure and strategic joint ventures or acquisitions.

We believe that current cash and cash equivalents will be sufficient to meet anticipated significant increases in 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 obtain a credit facility. The sale of additional equity or convertible debt securities could result in additional dilution to shareholders. The incurrence of indebtedness would result in increased 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 relating to Sohu.com

We have incurred net losses since inception and anticipate that losses will continue.

We have incurred significant net losses since our inception in August 1996 and had an accumulated deficit of approximately \$20 million at September 30, 2000. We anticipate that we will continue to incur substantial net losses due to a high level of planned operating and capital expenditures, including increased sales and marketing costs, additional personnel hires, and greater levels of product development. Our net losses may continue to increase in the future and we may never achieve or 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 an e-commerce business, 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 business solely in the PRC through our wholly owned subsidiary, Sohu ITC Information Technology (Beijing) Co., Ltd., or Beijing ITC. Beijing ITC is a wholly owned foreign enterprise, or a WOFE, under PRC law. We are a Delaware corporation and a foreign person under PRC law. Accordingly, our Internet business is 100% foreign-owned. In addition, pursuant to our recent restructuring, we transferred certain of our assets and operations to Beijing Sohu Online Network Information Services, Ltd., or Beijing Sohu, a PRC company that is 80% owned by our chief executive officer. We do not have any ownership interest in Beijing Sohu.

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 recently-enacted regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information services. If these new regulations are interpreted to be inconsistent with our restructuring, our business will be severely impaired.
- A limitation on foreign investment in businesses providing value-added telecommunication services, including computer information services or electronic mail box services, is expected to be applied to Internet businesses such as ours. However, under regulations published to date, the extent of the limitation is unclear. In the past, some officials of the PRC Ministry of Information, or MII, have taken the position that foreign investment in the Internet sector is prohibited.
- 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. However, the implementation of this agreement is still subject to various conditions.
- The MII has also stated recently that the activities of Internet content providers are also 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 may include online advertising and online news reporting.

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

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

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 controlled by our 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 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 business only in the PRC, and because we are restricted by the PRC government from owning Internet content operations in the PRC, we are dependent on Beijing Sohu, in which we have no ownership interest, to provide those services through contractual agreements between the parties. This arrangement may not be as effective in providing control over our Internet content 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 fails 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.

Beijing Sohu is controlled by Charles Zhang, our chief executive officer. As a result, our contractual relationships with Beijing Sohu 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 may have to register our encryption software with PRC regulatory authorities, and if they request that we change our encryption software, our business operations will be disrupted as we develop or license replacement software.

Pursuant to the Regulations for the Administration of Commercial Encryption promulgated at the end of 1999, foreign and domestic PRC companies operating in the PRC are required to register and disclose to PRC regulatory authorities the commercial encryption products they use. Because these regulations have just recently been adopted and because they do not specify what constitutes encryption products, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register, or apply for permits with the relevant PRC regulatory authorities for, our current or future encryption software. If PRC regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which could disrupt our business operations. In addition, we may be subject to potential liability for using software that is subsequently deemed to be illegal by the relevant PRC regulatory authorities. These potential liabilities might include fines, product confiscation and criminal sanctions.

We depend on online advertising for substantially all of our revenues.

We derive substantially all of our revenues from the sale of online advertising on our Web sites. For 1999 and the nine months ended September 30, 2000, online advertising revenues represented approximately 75% and 95%, respectively, of our total revenues. In addition, our business plan is heavily dependent on the anticipated expansion of online advertising in China and the growth of our revenue is heavily dependent on online advertising.

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;
- 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.

In addition, an element of our strategy is to diversify our revenue stream by entering into more Web site sponsorship arrangements and by introducing e-commerce services and generating e-commerce revenue. We may not be successful in implementing this strategy.

Accordingly, we may not be successful in generating significant future online advertising revenue or in diversifying our revenue stream.

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 and e-commerce merchants 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 and e-commerce partners, we intend to increase substantially 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 e-commerce partners.

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. For more information on our capital and financing requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

If we fail to establish and maintain relationships with content providers, e-commerce merchants and technology providers, 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 recently 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.

Our business also depends significantly on relationships with leading e-commerce merchants and 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.

Our future success is heavily dependent upon the continued service of our key executives, particularly Dr. Charles Zhang, who is the founder, President and chief executive officer of our company and the founder and President of Beijing Sohu. We rely on his expertise in our business operations and on his personal relationships with some of our principal stockholders, the relevant regulatory authorities, our customers and suppliers and Beijing Sohu. If one or more of our key executives 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 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 a confidentiality, non-competition and non-solicitation agreement with us. These officers also have employment agreements with Beijing ITC, our PRC operating subsidiary, which contain substantially similar confidentiality and non-competition undertakings. 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.

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 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;
- continue training, motivating and retaining our existing employees and attracting and integrating new employees; and
- developing and improving 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. During the nine months ended September 30, 2000, substantially all of our advertising revenues were derived from charging a fixed fee to display an advertisement over a given time period. To the extent that minimum guaranteed impression levels are not met, we are required to provide additional impressions after the contract term and we accordingly defer the related revenue. The failure of our advertising model could have a material and adverse effect on our business, financial condition and results of operations.

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 service 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.

The loss of one of our significant advertisers could have a materially adverse impact on our overall revenues.

Sales to our five largest customers amounted to 27% of our total sales for the quarter ended September 30, 2000. We anticipate that we will continue to rely on a relatively small number of significant advertisers for a majority of our total revenues for the foreseeable future.

During January 2000, we entered into multi-year advertising agreements with affiliates of Pacific Century Cyberworks Limited, Legend Holdings Limited and Hikari Tsushin, Inc. The loss of any of these agreements or a decrease in the volume of advertising by any of these advertisers could have a serious adverse effect on our future results of operations.

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 will rely on dividends and other distributions on equity paid by our wholly-owned operating subsidiary to fund any cash requirements we may have.

We are a holding company with no operating assets other than the shares of Beijing ITC, our wholly-owned subsidiary in the PRC that owns and conducts our Internet business. We will 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 losses since its inception and is expected to continue to incurring losses in the foreseeable future. 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.

Until the China Trademark Office issues trademark registration certificates, we do not have exclusive rights over the mark "Sohu.com" in China.

China's trademark law uses a "first-to-file" system for obtaining trademark rights. As a result, the first applicant to file an application for registration of a mark will preempt all other applicants. Prior use of an unregistered mark is

generally irrelevant except for "well-known" marks. We have registered the domain name "Sohu.com" with Network Solutions and the domain name "Sohu.com.cn" with China Internet Network Information Center, a domain name registration service in China, and have full legal rights over these domain names. We have also filed trademark applications for the mark "Sohu.com" in Chinese and English with the China Trademark Office. However, until actual registration certificates are issued by the China Trademark Office, we do not have exclusive rights over the mark "Sohu.com."

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, and may in the future be, subject to legal proceedings and claims from time to time 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, 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.

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 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 relating to our markets

We rely on online advertising sales for a significant portion of our future revenues, but the Internet has not been proven as a widely accepted medium for advertising.

We expect to derive most of our revenue for the foreseeable future from Internet advertising, and to a lesser extent, from e-commerce. If the Internet is not accepted as a medium for advertising, 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 Internet 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 and Internet 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. In addition, we may face competition from existing or new domestic PRC Internet companies that are either affiliated with large corporations such as American 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 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 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 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 occur, we may experience a complete system shut-down. 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. Security breaches could have a material adverse effect on our business. 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. The PRC government may take action to limit or eliminate the distribution of information through our portal or may limit or regulate current or future applications available to users of our portal.

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-owned foreign enterprise, or WOFE, 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, as a non-PRC Corporation, and 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 our assets and revenues are denominated in Renminbi. Our assets and 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 the Market for Our Common Stock

The market price of our common stock has been and will likely continue to be volatile

The market price of our common stock has been volatile, and is likely to continue to be so. 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, particularly Internet companies. As a result, investors in our shares may experience a decrease in the value of their shares regardless of our operating performance or prospects.

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

There were 35,625,716 shares of our common stock outstanding as of November 14, 2000. Of the outstanding shares, all of the 4,600,000 shares of common stock sold in our initial public offering are freely tradeable without restriction unless they are held by our “affiliates”, as that term is defined in Rule 144 under the Securities Act of 1933. In connection with our initial public offering, we, our executive officers and directors and most of existing stockholders agreed not to sell any shares of common stock for the 180 day period ending January 8, 2001 without the approval of Credit Suisse First Boston Corporation. Following the end of that period, an additional 4,771,110 shares of common stock will be freely tradeable without restriction unless they are held by our “affiliates,” and an additional 20,607,213 shares of our common stock will be tradeable subject to volume and manner of sale restrictions imposed by Rule 144 under the Securities Act.

Upon the closing of our acquisition of ChinaRen on October 18, 2000, we issued an aggregate of 4,401,500 shares of our common stock to the former stockholders of ChinaRen. Commencing on October 18, 2001, these shares will be tradeable subject to volume and manner of sale restrictions imposed by Rule 144 under the Securities Act.

A number of our stockholders, including the former stockholders of ChinaRen, are parties to an agreement with us that provides these stockholders with the right to require us to register the sale of shares owned by them. Registration of these shares of our common stock would permit the sale of these shares without regard to the restrictions of Rule 144.

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

Our three largest stockholders currently beneficially own approximately 52% of the outstanding shares of common stock. Accordingly these three 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 and 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 approximately 67% of the outstanding shares of our common stock are parties to an agreement under which they have agreed to vote together in favor of nominees of three of our stockholders to our board of directors. As a result of their voting power, they will have the ability to cause those nominees to be elected.

Anti-takeover provisions of the Delaware General Corporation Law and our certificate of incorporation 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.

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

INTEREST RATE RISK

Our investment policy requires us to invest our excess cash in government or quasi-government securities and in high-quality corporate securities and limits the amount of credit exposure to any one issuer. We protect and preserve our invested funds by limiting default, market and reinvestment risk. Due to the fact that majority of our investments are in short-term instruments, we have concluded that there is no material market risk exposure in this area.

FOREIGN CURRENCY EXCHANGE RATE RISK

The majority of our revenues, expenses and liabilities are denominated in Chinese renminbi. Thus, revenues and operating results may be impacted by exchange rate fluctuations in the renminbi when financial results are translated in U.S. dollars on consolidation. Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting the ability to convert Chinese renminbi into foreign currencies and, if the renminbi were to decline in value, reducing revenue in U.S. dollar terms. We have not tried to reduce exposure to exchange rate fluctuations by using hedging transactions but may choose to do so in the future. We may not be able to do this successfully. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. The effect of foreign exchange rate fluctuations on us in the three and nine months ended September 30, 2000 was not material.

INVESTMENT RISK

During the three months ended June 30, 2000, we invested in a privately-held company for business and strategic purposes. This investment is included in other assets and is accounted for under the cost method as ownership is less than 5% and we do not have the ability to exercise significant influence over its operations. For investments in privately-held companies, we identify and record impairment losses when events and circumstances indicate that such assets have been impaired. During the three months ended September 30, 2000, \$500,000 in such impairment has been recorded.

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. The U.S. underwriters for the offering were Credit Suisse First Boston Corporation, BOCI Asia Limited and Donaldson, Lufkin & Jenrette Securities Corporation and the International managers were Credit Suisse First Boston (Hong Kong) Limited, BOCI Asia Limited and Donaldson, Lufkin & Jenrette Asia Limited. 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 estimated expenses of the offering of \$3.1 million, were approximately \$52.5 million. All shares sold in the offering were sold by us.

No proceeds of the offering were used during the quarter ended September 30, 2000.

On October 18, 2000, we completed our acquisition of all of the capital stock of ChinaRen, Inc., a California corporation, by means of a merger of Alpha Sub Inc., a California corporation, with and into ChinaRen, pursuant to the Agreement and Plan of Merger dated as of September 13, 2000 among us, Alpha Sub and ChinaRen. As a result of this merger, ChinaRen became our wholly-owned subsidiary. The merger was effected by the filing of an agreement of merger with the Secretary of State of California on October 18, 2000. ChinaRen is a Web portal directed at residents of the People's Republic of China.

Pursuant to the terms of the Agreement and Plan of Merger, upon the closing of the transaction on October 18, 2000, we issued an aggregate of 4,401,500 shares of our common stock and \$83.13 in cash in lieu of fractional shares of our common stock in exchange for all of the outstanding shares of capital stock of ChinaRen. In accordance with the terms of the Agreement and Plan of Merger, 1,229,685 of the shares we issued (all owned by the founders of ChinaRen) have been placed in escrow for a one-year period to secure certain indemnification and other obligations of such founders under the Agreement and Plan of Merger. The shares of our common stock issued pursuant to the Agreement and Plan of Merger were issued in a private placement without registration under the Securities Act of 1933, as amended.

Also, pursuant to the terms of the Agreement and Plan of Merger, upon the effective time of the merger, we granted to holders of all options, outstanding immediately prior to the effective time of the merger, for the purchase of shares of ChinaRen common stock options for the purchase of shares of our common stock, and all of the options for the purchase of shares of ChinaRen common stock were cancelled. We have reserved 226,370 shares of our common stock for issuance upon exercise of the options to purchase shares of our common stock granted in connection with the merger.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

Subsequent Events

On October 31, 2000, we announced the completion of the ChinaRen acquisition on October 18, 2000 and announced that Tom Gurnee, our chief financial officer, intends to return to the United States at the end of the year, and will then no longer serve as chief financial officer. We also announced that Mr. Gurnee has been appointed to the board of directors effective immediately and that Derek Palaschuk, Vice President Controller, has been promoted to Vice President Finance and will assume full responsibility for finance and accounting effective upon Mr. Gurnee's departure. A copy of the press release we issued regarding the foregoing is filed with our Current Report on Form 8-K filed on November 2, 2000 .

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

An exhibit index is attached hereto.

(b) Reports on Form 8-K.

On September 28, 2000, we filed a Current Report on Form 8-K to announce that we had entered into (i) an Agreement and Plan of Merger with Alpha Sub Inc. and ChinaRen, Inc., pursuant to which ChinaRen would become our wholly-owned subsidiary and (ii) an interim loan agreement for up to \$2 million with ChinaRen as borrower.

SIGNATURES

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

SOHU.COM INC.

Dated: November 14, 2000

By: /s/ THOMAS H.R. GURNEE

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

Sohu.com Inc.
Report on Form 10-Q For Quarter Ended September 30, 2000

EXHIBITS INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger among Sohu.com Inc., Alpha Sub Inc. and ChinaRen, Inc. dated as of September 13, 2000*
2.2	Agreement of Merger among Sohu.com Inc., Alpha Sub Inc. and ChinaRen, Inc. filed with the Secretary of State of California on October 18, 2000*
3.1	Sixth Amended and Restated Certificate of Incorporation of Sohu.com Inc. as filed with the Secretary of State of Delaware on July 17, 2000.
3.2	Amended and Restated Bylaws of Sohu.com Inc., effective July 17, 2000.
4.1	Form of Amendment No. 2 to Third Amended and Restated Investor Rights Agreement.
27.1	Financial Data Schedule.

* Incorporated herein by reference to Sohu's Current Report on Form 8-K filed November 2, 2000 (File No. 0-30961)

SIXTH AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
SOHU.COM INC.

Sohu.com Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

A. The name of the Corporation is Sohu.com Inc. The date of the filing of its original Certificate of Incorporation (the "Original Certificate of Incorporation") with the Secretary of State of the State of Delaware was August 2, 1996, under the name of Internet Technologies China Incorporated. The Original Certificate of Incorporation was amended and restated on March 10, 1998, subsequently amended and restated on August 7, 1998, amended on September 28, 1999, subsequently amended and restated on October 15, 1999, subsequently amended and restated on February 1, 2000, subsequently amended and restated on June 22, 2000 (the "Fifth Amended and Restated Certificate of Incorporation"), and subsequently amended on July 13, 2000.

B. This Sixth Amended and Restated Certificate of Incorporation (the "Certificate"), which amends, restates and integrates the provisions of the Fifth Amended and Restated Certificate of Incorporation, as amended to date, was duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware, as amended from time to time (the "DGCL"), and was duly adopted by the written consent of the stockholders of the Corporation in accordance with the applicable provisions of Sections 228, 242 and 245 of the DGCL.

C. The text of the Fifth Amended and Restated Certificate of Incorporation, as amended to date, is hereby amended and restated in its entirety to provide as herein set forth in full.

ARTICLE I

The name of this corporation (the "Corporation") is Sohu.com Inc.

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

ARTICLE IV

A. Number of Shares and Classes of Stock. The Corporation is authorized

to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares of stock which the Corporation shall have authority to issue is Seventy-Six Million Four Hundred Thousand (76,400,000) shares, consisting of Seventy-Five Million Four Hundred Thousand (75,400,000) shares of Common Stock, \$0.001 par value per share, and One Million (1,000,000) shares of Preferred Stock, \$0.001 par value per share.

B. Preferred Stock; The Power to Designate. The Board of Directors of the

Corporation is hereby expressly vested with the power to issue one or more series of the Preferred Stock of the Corporation from time to time and by resolution to designate the powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions of any such series to the extent permitted under the DGCL.

Subject to the rights of the holders of any series of Preferred Stock, the number of authorized shares of any class or series of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the outstanding shares entitled to vote, irrespective of the provisions of 242(b)(2) of the DGCL or any corresponding provision hereafter enacted.

ARTICLE V

For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

1. The number of directors of the Corporation shall be determined in accordance with the By-Laws. Commencing with the first annual meeting of the stockholders after the effective date hereof, the directors of the Corporation shall be divided into two classes, as nearly equal as reasonably possible, as determined by the Board of Directors, with the initial term of office of the first class of such Directors ("Class I") to expire at the second annual meeting of the stockholders after the effective date hereof and the initial term of office of the second class of such directors ("Class II") to expire at the third annual meeting of the stockholders after the effective date hereof, with each class of directors to hold office until their successors have been elected and qualified. At each annual meeting of stockholders, directors elected to succeed the directors whose terms expire at such annual meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders in the second year following the year of their election and until their successors have been duly elected and qualified. Elections of directors need not be by written ballot except and to the extent provided in the By-Laws of the Corporation.

2. The board of directors of the Corporation is expressly authorized to adopt, amend or repeal the By-Laws of the Corporation. The By-Laws of the Corporation may also be altered or repealed and new By-Laws may be adopted at any annual or special meeting of

stockholders, by the affirmative vote of the holders of not less than a majority of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for purposes hereof as a single class.

3. Any action required or permitted to be taken by the stockholders of the Corporation must be taken at a duly called annual or special meeting of such holders and may not be taken by any consent in writing by such holders. Except as otherwise provided for herein or required by law, special meetings of stockholders of the Corporation for any purpose or purposes may be called only by the Board or by the President, and any power of stockholders to call a special meeting is specifically denied.

4. No director of the Corporation shall have any personal liability to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided, however, that the foregoing shall not

eliminate or limit the liability of a director of the Corporation (i) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transactions from which the director derived an improper personal benefit. If the DGCL is amended after the effective date of this Certificate to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Any proposed alteration, amendment or repeal of this provision of Article V shall require the affirmative vote of the holders of not less than 80% of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for the purposes hereof as a single class, provided, however, that any such

alteration, amendment or repeal by the stockholders of the Corporation (or by operation of law) shall not adversely affect any right or protection of a director of the Corporation with respect to any acts or omissions of such directors occurring prior to such amendment or repeal.

ARTICLE VI

The corporation shall, to the fullest extent permitted by Section 145 of the DGCL, as the same may be amended and supplemented, indemnify directors of the Corporation from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his capacity as a director and as to action in another capacity during his tenure as a director, and shall continue as to a person who has ceased to be a director, and shall inure to the benefit of the heirs, executors and administrators of such a person.

Any amendment, modification or repeal of Article VI shall not adversely affect any right or protection in favor of any director existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such person occurring prior to such amendment, modification or repeal.

ARTICLE VII

From time to time any of the provisions of this Amended and Restated Certificate of Incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this Amended and Restated Certificate of Incorporation are granted subject to the provisions of this Article VII.

* * * *

IN WITNESS WHEREOF, the undersigned has executed this Certificate on July 17, 2000.

By: /s/ Timothy B. Bancroft

Timothy B. Bancroft
Secretary

AMENDED AND RESTATED

BY-LAWS

OF

SOHU.COM INC.

ARTICLE I

Offices

SECTION 1. Registered Office. The registered office of Sohu.com Inc. (the "Corporation") in the State of Delaware shall be 1209 Orange Street, Wilmington, Delaware 19805, in the County of New Castle. The name of the registered agent at such office shall be The Corporation Trust Company.

SECTION 2. Other Offices. The Corporation may also have offices at such other places either within or without the State of Delaware as the Board of Directors (the "Board") may from time to time determine.

ARTICLE II

Meetings of Stockholders

SECTION 1. Annual Meetings. The annual meeting of the stockholders of the Corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such hour and place as the Board may determine on the second Tuesday in May of each year or on such other date as the Board may determine. If for any reason the annual meeting shall not be held on the date fixed herein, a special meeting in lieu of the annual meeting may be held, with all the force and effect of an annual meeting, on such date and at such place and hour as shall be designated by the Board in the notice thereof. At the annual meeting any business may be transacted whether or not the notice of such meeting shall have contained a reference thereto, except where such a reference is required by law, the Certificate of Incorporation or these By-laws.

SECTION 2. Special Meetings. A special meeting of the stockholders for any purpose or purposes may be called at any time by the Board or by the President, and such meeting shall be held on such date and at such place and hour as shall be designated in the notice thereof. Any power of stockholders to call a special meeting is specifically denied.

SECTION 3. Notice of Meetings. Except as otherwise expressly required by these By-laws or by law, notice of each meeting of the stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each

stockholder of record entitled to notice of, or to vote at, such meeting by delivering a notice thereof to such stockholder personally or by depositing such notice in the United States mail, directed to such stockholder at such stockholder's address as it appears on the stock records of the Corporation. Every such notice shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Notice of any adjourned meeting of the stockholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken and a new record date for the adjourned meeting is not thereafter fixed.

SECTION 4. Quorum and Manner of Acting. Except as otherwise expressly

required by law, if stockholders holding of record a majority of the shares of stock of the Corporation issued, outstanding and entitled to be voted at the particular meeting shall be present in person or by proxy, a quorum for the transaction of business at any meeting of the stockholders shall exist. In the absence of a quorum at any such meeting or any adjournment or adjournments thereof, a majority in voting interest of those present in person or by proxy and entitled to vote thereat may adjourn such meeting from time to time until stockholders holding the amount of stock requisite for a quorum shall be present in person or by proxy. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 5. Voting. Except as otherwise provided in the Certificate of

Incorporation, each stockholder shall, at each meeting of the stockholders, be entitled to one vote in person or by proxy for each share of stock of the Corporation which has voting power on the matter in question held by such stockholder and registered in such stockholder's name on the stock record of the Corporation:

(a) on the date fixed pursuant to the provisions of Section 6 of Article VII of these By-laws as the record date for the determination of stockholders who shall be entitled to receive notice of and to vote at such meeting; or

(b) if no record date shall have been so fixed, at the close of business on the day next given or, if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

At all meetings of the stockholders all matters, except as otherwise provided in the Certificate of Incorporation, in these By-laws or by law, shall be decided by the vote of a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

SECTION 6. Written Consent of Stockholders in Lieu of Meeting Not

Permitted. Any action required to be taken or any other action which may be

taken must be taken at a duly called annual or special meeting of stockholders, and may not be taken by a consent in writing by such holders.

SECTION 7. Advance Notice of Stockholder Proposals. At any annual or

special meeting of stockholders, proposals by stockholders and persons nominated for election as directors by stockholders shall be considered only if advance notice thereof has been timely given as provided herein and such proposals or nominations are otherwise proper for consideration under applicable law and the Certificate of Incorporation and By-laws of the Corporation. Notice of any proposal to be presented by any stockholder or of the name of any person to be nominated by any stockholder for election as a director of the Corporation at any meeting of stockholders shall be delivered to the Secretary of the Corporation at its principal executive office not less than 60 nor more than 90 days prior to the date of the meeting, provided, however, that if the date of

the meeting is first publicly announced or disclosed (in a public filing or otherwise) less than 70 days prior to the date of the meeting, such advance notice shall be given not more than ten days after such date is first so announced or disclosed. Public notice shall be deemed to have been given more than 70 days in advance of the annual meeting if the Corporation shall have previously disclosed, in these By-laws or otherwise, that the annual meeting in each year is to be held on a determinable date, unless and until the Board determines to hold the meeting on a different date.

Any stockholder who gives notice of any such proposal shall deliver therewith the text of the proposal to be presented and a brief written statement of the reasons why such stockholder favors the proposal and setting forth such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder and any material interest of such stockholder in the proposal (other than as a stockholder). Any stockholder desiring to nominate any person for election as a director of the Corporation shall deliver with such notice a statement in writing setting forth the name of the person to be nominated, the number and class of all shares of each class of stock of the Corporation beneficially owned by such person, the information regarding such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the Securities and Exchange Commission applicable to the Corporation), such person's signed consent to serve as a director of the Corporation if elected, such stockholder's name and address and the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder.

The person presiding at the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall determine whether such notice has been given and shall direct that proposals and nominees not be considered if such notice has not been given.

SECTION 8. Inspectors. Either the Board or, in the absence of a designation

of inspectors by the Board, the chairman of the meeting may, in the discretion of the Board or the chairman, appoint one or more inspectors, who need not be stockholders, who shall receive and take charge of ballots and proxies and decide all questions relating to the qualification of those asserting the right to vote and the validity of ballots and proxies. In the event of the failure or refusal to serve of any inspector designated by the Board, the

chairman of the meeting shall appoint an inspector to act in place of each such inspector designated by the Board.

ARTICLE III

Board of Directors

SECTION 1. General Powers. The property, business, affairs and policies of the Corporation shall be managed by or under the direction of the Board.

SECTION 2. Number and Term of Office. The number of directors which shall constitute the entire Board shall be seven (7) initially and thereafter the number shall be fixed from time to time by resolution of the Board of Directors.

SECTION 3. Meetings.

(A) Annual Meeting. The annual meeting of the Board, for the purpose of organization, the election of officers and the transaction of other business, shall be held as promptly as practicable after each annual meeting of stockholders or the special meeting in lieu thereof.

(B) Regular Meetings. Regular meetings of the Board or any committee thereof shall be held at such time and place, within or without the State of Delaware, as the Board or such committee shall from time to time determine.

(C) Special Meetings. Special meetings of the Board may be called by order of the President or by a majority of the directors then in office.

(D) Notice of Meetings. No notice of regular meetings of the Board or of any committee thereof or of any adjourned meeting thereof need be given. The Secretary shall give prior notice to each director of the time and place of each special meeting of the Board or adjournment thereof. Such notice shall be given to each director in person or by telephone, fax or ordinary mail, not less than two days before the meeting if given in person or by telephone or fax and, if given by mail, post marked at least four (4) days prior to the special meeting if given by mail, and sent to such director at the director's residence or usual business address. Each such notice shall state the time and place of the meeting and purpose thereof. In lieu of the notice to be given as set forth above, a waiver thereof in writing, signed by the director or directors entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto for purposes of this Section 3(D). No notice to or waiver by any director with respect to any special meeting shall be required if such director shall be present at said meeting.

(E) Quorum and Manner of Acting.

(a) At all meetings of the Board, each director present shall have one vote, irrespective of the number of shares of stock, if any, which he may hold.

(b) Except as otherwise expressly required by these By-laws or by law, a majority of the directors then in office and a majority of the members of any committee shall be present in person at any meeting thereof in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of the directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or for an act to be the act of the Board or such committee. In the absence of a quorum, a majority of the directors present thereat may adjourn such meeting either finally or from time to time to another time and place until a quorum shall be present thereat. In the latter case notice of the adjourned time and place shall be given as aforesaid to all directors.

(F) Consent in Lieu of Meeting. Any action required or permitted to

be taken at any meeting of the Board or any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in a writing or writings and such writing or writings are filed with the minutes of the proceedings of the Board or committee. Such consents shall be treated for all purposes as a vote at a meeting.

(G) Action by Communications Equipment. The directors may participate

in a meeting of the Board or any committee thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

SECTION 4. Compensation. Each director, in consideration of serving as

such, may receive from the Corporation such amount per annum and such fees and expenses incurred for attendance at meetings of the Board or of any committee, or both, as the Board may from time to time determine. Nothing contained in this Section shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 5. Restoration, Removal and Vacancies. Any director may resign at

any time by giving written notice, of such resignation to the President or the Secretary.

Any such resignation shall take effect at the time specified therein or, if not specified therein, upon receipt. Unless otherwise specified in the resignation, its acceptance shall not be necessary to make it effective. Except as provided for in the Certificate of Incorporation, any or all of the directors may be removed at any time at a duly called and duly held meeting of shareholders by vote of a majority of shares then entitled to vote at an election of directors.

If the office of any director becomes vacant at any time by reason of death, resignation, retirement, disqualification, removal from office or otherwise, or if any new directorship is created by any increase in the authorized number of directors, a majority of the directors then in office, though less than a quorum, or the sole remaining director,

may choose a successor or fill the newly created directorship and the director so chosen shall hold office, subject to the provisions of these By-laws, until the next annual election of directors and until his successor shall be duly elected and shall qualify. In the event that a vacancy arising as aforesaid shall not have been filled by the Board, such vacancy may be filled by the stockholders at any meeting thereof after such office becomes vacant. If one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so prospectively resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as herein provided in the filling of other vacancies.

In the event of any increase or decrease in the authorized number of directors: (a) each director then serving as such shall nonetheless continue as a director of the class of which he is a member until the expiration of his current term, or his earlier death, retirement, resignation, or removal; and (b) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board among the two classes of directors so as to maintain such classes as nearly equal in number as reasonably possible.

SECTION 6. Committees. The directors may, by vote of a majority of the -----
directors then in office, appoint from their number one or more committees and delegate to such committees some or all of their powers to the extent permitted by law, the Certificate of Incorporation or these By-laws. Except as the Board may otherwise determine, any such committee may, by majority vote of the entire committee, make rules for the conduct of its business. The directors shall have the power at any time to fill vacancies in any such committee, to change its membership or to discharge the committee.

ARTICLE IV

Officers -----

SECTION 1. Election and Appointment and Term of Office. The officers of the -----
Corporation shall be a President, such number, if any, of Vice Presidents (including any Executive or Senior Vice Presidents) as the Board may from time to time determine, a Secretary and a Treasurer. Each such officer shall be elected by the Board at its annual meeting and hold office for such term as may be prescribed by the Board. Two or more offices may be held by the same person. The President may, but need not, be chosen from among the Directors.

The Board may elect or appoint (and may authorize the President to appoint) such other officers (including one or more Assistant Secretaries and Assistant Treasurers) as it deems necessary who shall have such authority and shall perform such duties as the Board or the President may from time to time prescribe.

If additional officers are elected or appointed during the year, each shall hold

office until the next annual meeting of the Board at which officers are regularly elected or appointed and until such officer's successor is elected or appointed and qualified or until such officer's earlier death or resignation or removal in the manner hereinafter provided.

SECTION 2. Duties and Functions.

(A) President. The President shall be the chief executive officer of

the Corporation and shall have general direction and supervision over the business and affairs of the Corporation, subject to the directions and limitations imposed by the Board and these By-laws, and shall see that all orders and resolutions of the Board are carried into effect. The President shall, if present, preside at all meetings of stockholders and of the Board and shall also perform such other duties and have such other powers as are prescribed by these By-laws or as may be from time to time prescribed by the Board, or these By-laws.

(B) Vice Presidents. Each Vice President shall have such powers and

duties as shall be prescribed by the Board.

(C) Secretary. The Secretary shall attend and keep the records of all

meetings of the stockholders, the Board and all other committees, if any, in one or more books kept for that purpose. The Secretary shall give or cause to be given due notice of all meetings accordance with these By-laws and as required by law. The Secretary shall notify the several officers of the Corporation of all action taken by the Board concerning matters relating to their duties and shall transmit to the appropriate officers copies of all contracts and resolutions approved by the Board. The Secretary shall be custodian of the seal of the Corporation and of all contracts, deeds, documents and other corporate papers, records (except financial and accounting records) and indicia of title to properties owned by the Corporation as shall not be committed to the custody of another officer by the Board or by the President. The Secretary shall affix or cause to be affixed the seal of the Corporation to instruments requiring the same when the same have been signed on behalf of the Corporation by a duly authorized officer. The Secretary shall perform all duties and have all powers incident to the office of Secretary and shall perform such other duties as shall be assigned by the Board or the President. The Secretary may be assisted by one or more Assistant Secretaries, who shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary.

(D) Treasurer. The Treasurer shall have charge and custody of the

corporate funds and other valuable effects, including securities. The Treasurer shall keep true and full accounts of all assets, liabilities, receipts and disbursements and other transactions of the Corporation and shall cause regular audits of the books and records of the Corporation to be made. The Treasurer shall perform all duties and have all powers incident to the office of Treasurer and shall perform such other duties as shall be assigned by the Board or the President. The Treasurer may be assisted by one or more Assistant Treasurers, who shall, in the absence or disability of the Treasurer, perform the duties or exercise the powers of the Treasurer.

SECTION 4. Resignation, Removal and Vacancies. Any officer may resign at

any time by giving written notice of such resignation to the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if not specified therein, when accepted by action of the Board.

Any officer, agent or employee may be removed, with or without cause, at any time by the Board or by the officer who made such appointment.

A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided in these By-laws for election or appointment to such office.

ARTICLE V

Waiver of Notices; Place of Meetings

SECTION 1. Waiver of Notices. Whenever notice is required to be given by

the Certificate of Incorporation, by these By-laws or by law, a waiver thereof in writing, signed by the person entitled to such notice, or by attorney thereunto authorized, shall be deemed equivalent to notice, whether given before or after the time specified therein. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except where the person attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

SECTION 2. Place of Meetings. Any meeting of the Stockholders, the Board or

any committee of the Board may be held within or outside the State of Delaware.

ARTICLE VI

Execution and Delivery of Documents:

Deposits; Proxies; Books and Records

SECTION 1. Execution and Delivery of Documents; Delegation. The Board shall

designate the officers, employees and agents of the Corporation who shall have power to execute and deliver deeds, contracts, mortgages, bonds, debentures, checks, drafts and other orders for the payment of money and other documents for and in the name of the Corporation and may authorize such officers, employees and agents to delegate such power (including authority to redelegate) by written instrument to other officers, employees or agents of the Corporation.

SECTION 2. Deposits. All funds of the Corporation not otherwise employed

shall be deposited from time to time to the credit of the Corporation or otherwise as the Board or the President or any other officer, employee or agent of the Corporation to whom power in that respect shall have been delegated by the Board or these By-laws shall select.

SECTION 3. Proxies in Respect of Stock or Other Securities of Other

Corporations. The President or any officer of the Corporation designated by the

Board shall have the authority from time to time to appoint and instruct an agent or agents of the Corporation to exercise in the name and on behalf of the Corporation the powers and rights which the Corporation may have as the holder of stock or other securities in any other corporation, to vote or consent in respect of such stock or securities and to execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal or otherwise, such written proxies, powers of attorney or other instruments as the President or such officer may deem necessary or proper in order that the Corporation may exercise such powers and rights.

SECTION 4. Books and Records. The books and records of the Corporation may

be kept at such places within or without the State of Delaware as the Board may from time to time determine.

ARTICLE VII

Certificates; Stock Record; Transfer and

Registration; New Certificates; Record Date; etc.

SECTION 1. Certificates for Stock. Every owner of stock of the Corporation

shall be entitled to have a certificate certifying the number of shares owned by such stockholder in the Corporation and designating the class of stock to which such shares belong, which shall otherwise be in such form as the Board shall prescribe. Each such certificate shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation. Any of or all such signatures may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled and a new certificate or certificates shall not be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 4 of this Article.

SECTION 2. Stock Record. A stock record in one or more counterparts shall

be kept of the name of the person, firm or corporation owning the stock represented by each such certificate for stock of the Corporation issued, the number of shares represented by each such certificate, the date thereof and, in the case of cancellation, the date of cancellation.

SECTION 3. Transfer and Registration of Stock. Registration of transfers of

shares of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by such holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, and on the surrender of the certificate

or certificates for such shares properly endorsed or accompanied by a stock power duly executed, with any necessary transfer stamps affixed and with such proof of authenticity of signatures and such proof of authority to make the transfer as may be required by the Corporation or its transfer agent.

SECTION 4. New Certificates.

(A) Lost, Stolen or Destroyed Certificates. The Board may direct a

new share certificate or certificates to be issued by the Corporation for any certificate or certificates alleged to have been lost, stolen, mutilated or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen, mutilated or destroyed. When authorizing such issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, mutilated or destroyed certificate or certificates, or such owner's legal representative, to give the Corporation a bond in such sum and in such form as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, mutilated or destroyed.

SECTION 5. Regulations. The Board may make such rules and regulations as it

may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of certificates for stock of the Corporation.

SECTION 6. Fixing Date for Determination of Stockholders of Record. In

order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. A determination of stockholders entitled to notice of or to vote at a meeting of the stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

ARTICLE VIII

Seal

The Board shall provide a corporate seal which shall bear the full name of the Corporation and the year and state of its incorporation.

ARTICLE IX

Indemnification

SECTION 1. Actions, Etc. Other Than By or in the Right of the Corporation.

The Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including a grand jury proceeding, and all appeals (but excluding any such action, suit or proceeding by or in the right of the Corporation), by reason of the fact that such person is or was a director or executive officer (as hereinafter defined), or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct in question was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent,

shall not, of itself, create a presumption that such person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that such person had reasonable cause to believe that the conduct in question was unlawful. As used in this Article IX, an "executive officer" of the Corporation shall be any officer designated as such pursuant to a vote of the Board of Directors.

SECTION 2. Actions, Etc., By or in the Right of the Corporation. The

Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit, including appeals, by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person is or was a director or executive officer of the Corporation as defined in Section I of this Article, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. Determination of Right of Indemnification. Any indemnification

of a director or officer (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that such indemnification is proper in the circumstances because the director or executive officer has met the

applicable standard of conduct as set forth in Sections 1 and 2 hereof. Such a determination shall be reasonably and promptly made (i) by the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) (if such a quorum is not obtainable, or, even if obtainable if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, or (iii) by the stockholders.

SECTION 4. Indemnification Against Expenses of Successful Party.

Notwithstanding any other provision of this Article, to the extent that a director or officer of the Corporation has been successful in whole or in part on the merits or otherwise, including the dismissal of an action without prejudice, in defense of any action, suit or proceeding or in defense of any claim, issue or matter therein, such person shall be indemnified against all expenses incurred in connection therewith.

SECTION 5. Advances of Expenses. Expenses incurred by a director or

executive officer in any action, suit or proceeding may be paid by the Corporation in advance of the final disposition thereof, if such person shall undertake to repay such amount in the event that it is ultimately determined, as provided herein, that such person is not entitled to indemnification. Notwithstanding the foregoing, no advance shall be made by the Corporation if a determination is reasonably and promptly made (i) by the Board by a majority vote of a quorum of disinterested directors, or (ii) (if such a quorum is not obtainable or, even if obtainable, if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, that, based upon the facts known to the Board or such counsel at the time such determination is made, such person has not met the relevant standards set forth for indemnification in Section I or 2, as the case may be.

SECTION 6. Right to Indemnification Upon Application; Procedure Upon

Application. Any indemnification or advance under Sections 1, 2, 4 or 5 of this

Article shall be made promptly, and in any event within ninety days, upon the written request of the person seeking to be indemnified, unless a determination is reasonably and promptly made by the Board that such person acted in a manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such an advance. In the event no quorum of disinterested directors is obtainable, the Board shall promptly appoint independent legal counsel to decide whether the person acted in the manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such an advance. The right to indemnification or advances as granted by this Article shall be enforceable by such person in any court of competent jurisdiction, if the Board or independent legal counsel denies the claim therefor, in whole or in part, or if no disposition of such claim is made within ninety days.

SECTION 7. Other Right and Remedies; Continuation of Rights. The

indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any By-law, agreement, vote of stockholders or disinterested directors, the General Corporation Law of the State of Delaware or otherwise, both as to action in such person's official capacity and as to

action in another capacity while holding such office. All rights to indemnification or advancement under this Article shall be deemed to be in the nature of contractual rights bargained for and enforceable by each director and executive officer as defined in Section 1 of this Article who serves in such capacity at any time while this Article and other relevant provisions of the General Corporation Law of the State of Delaware and other applicable laws, if any, are in effect. All rights to indemnification under this Article or advancement of expenses shall continue as to a person who has ceased to be a director or executive officer, and shall inure to the benefit of the heirs, executors and administrators of such a person. No repeal or modification of this Article shall adversely affect any such rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts. The Corporation shall also indemnify any person for attorneys' fees, costs, and expenses in connection with the successful enforcement of such person's rights under this Article.

SECTION 8. Other Indemnities. The Board may, by general vote or by vote

pertaining to a specific officer, employee or agent, advisory council member or class thereof, authorize indemnification of the Corporation's employees and agents, in addition to those executive officers and to whatever extent it may determine, which may be in the same manner and to the same extent provided above.

SECTION 9. Insurance. Upon resolution passed by the Board of Directors, the

Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, advisory council member or agent of the Corporation, or is or was serving at the request of the Corporation, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article.

SECTION 10. Constituent Corporations. For the purposes of this Article,

references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporations (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors and officers so that any person who is or was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

SECTION 11. Savings Clause. If this Article or any portion hereof shall be

invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, executive officer, advisory council member, and those employees and agents of the Corporation granted indemnification pursuant to

Section 3 hereof as to expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any a action, suit or proceeding, whether civil, criminal, administrative or investigative including grand jury proceeding, and all appeals, and any action by the Corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated or by any other applicable law.

SECTION 12. Other Enterprises, Fines, and Serving at Corporation's Request.

For purposes of this Article, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of any employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article.

ARTICLE X

Dividends

Subject to the applicable provision of the Certificate of Incorporation, if any, dividends upon the outstanding shares of the Corporation may be declared by the Board at any regular or special meeting pursuant to law and may be paid in cash, in property, or in shares of the Corporation.

ARTICLE XI

Fiscal Year

The fiscal year of the Corporation shall be determined by resolution of the Board.

ARTICLE XII

Amendments

These By-laws may be amended, altered or repealed either by the affirmative vote of the holders of a majority of the stock issued and outstanding and entitled to vote in respect thereof and represented in person or by proxy at any annual or special meeting of the stockholders, or by the Board at any regular or special meeting of the Board.

AMENDMENT NO. 2
TO
SOHU.COM INC.
THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT

THIS AMENDMENT NO. 2 TO SOHU.COM INC. THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT (this "Amendment") is entered into as of November __, 2000, by and among Sohu.com Inc., a Delaware corporation (the "Company"), and the several parties listed on the signature page hereof, amending the Sohu.com Inc. Third Amended and Restated Investor Rights Agreement made and entered into as of February 1, 2000 (as amended by Amendment No. 1, dated February 2, 2000, to Third Amended and Restated Investor Rights Agreement, the "Investor Rights Agreement"), by and among the Company and the Investors (as defined therein).

WHEREAS, the Company and the several parties listed on the signature page hereof desire to provide the former stockholders listed on Exhibit B to the Investor Rights Agreement as amended by this Amendment (the "Former ChinaRen Stockholders") of ChinaRen, Inc. ("ChinaRen"), with certain registration rights with regard to the shares of Common Stock of the Company they received in connection with the Company's acquisition of ChinaRen; and

WHEREAS, the Company and the several parties listed on the signature page hereof desire to amend the Investor Rights Agreement to provide for such; and

NOW THEREFORE, in consideration of the mutual covenants and undertakings contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to and on the terms and conditions herein set forth, the parties hereto agree as follows:

1. Addition of Former ChinaRen Stockholders. Each of the Former ChinaRen

Stockholders, by the execution and delivery of this Amendment, shall hereby become, with respect to Section 2 of the Investor Rights Agreement only, a signatory of and party to the Investor Rights Agreement, as amended hereby, effective as of the date of such execution and delivery. Except as expressly provided herein, the Former ChinaRen Stockholders shall not hold or enjoy any of the other rights and privileges of the Investors under the Investors Rights Agreement.

2. Amendment to Section 2.1(b). There is added to the end of the first

sentence of Section 2.1(b) of the Investor Rights Agreement, as a continuation of the sentence, the following clause:

", (4) any shares of Common Stock of the Company held by any of the individuals or entities listed on Exhibit B hereto received by such individuals or entities as a result of the merger of Alpha Sub Inc. with and into ChinaRen, Inc. pursuant to the Agreement and

Plan of Merger among Sohu.com Inc., Alpha Sub Inc. and ChinaRen, Inc. dated as of September 13, 2000 (the "ChinaRen Merger Agreement"), and (5) any shares of Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, any shares of Common Stock described in clause (4) of this subsection (b)."

3. Addition of Exhibit B. Exhibit B attached hereto is hereby added as

Exhibit B to the Investor Rights Agreement.

4. Lock-ups and Escrow. The registration rights of the Former ChinaRen

Stockholders granted pursuant to this Amendment are subject to suspension in each instance during the applicable period of lock-up or escrow pursuant to lock-up agreements and escrow arrangements executed and entered into in connection with the ChinaRen Merger Agreement.

5. The Investor Rights Agreement, as amended hereby, shall remain in full force and effect.

6. This Amendment shall be governed by and construed exclusively in accordance with the internal laws of the State of Delaware as applied to agreements among Delaware residents entered into and to be performed entirely within Delaware, excluding that body of law relating to conflict of laws and choice of law.

7. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, this Amendment is entered into as of the date and year first above written.

SOHU.COM, INC.

By:

Name:
Title:

MAXTECH ENTERPRISES LIMITED

By:

Name:
Title:

INTEL CORPORATION

By:

Name:
Title:

DOW JONES & COMPANY, INC.

By:

Name:
Title:

PTV-CHINA, INC.

By:

Name:
Title:

HIKARI TSUSHIN, INC.

By:

Name:
Title:

AMENDMENT NO. 2
TO
SOHU.COM INC.
THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
(signature page continued)

FORMER CHINAREN STOCKHOLDERS:

Joseph Chen (only with
respect to shares of Common
Stock issued in exchange
for shares of Series A
Preferred Stock of
ChinaRen)

Yunfan Zhou (only with
respect to shares of Common
Stock issued in exchange
for shares of Series A
Preferred Stock of
ChinaRen)

Nick Yang (only with
respect to shares of Common
Stock issued in exchange
for shares of Series A
Preferred Stock of
ChinaRen)

Lee Styslinger III

AMENDMENT NO. 2
TO
SOHU.COM INC.
THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
(signature page continued)

LAW & PARTNERS, ATTORNEYS AT
LAW (F/K/A LAW & ARTHUR)

By: _____

Name:
Title:

George Lu

Larry Rosenbaum

Zhujun Wang

Li Zhou

Sherry Chen Lin

Jian Liu

AMENDMENT NO. 2
TO
SOHU.COM INC.
THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
(signature page continued)

Jeffrey Kenneth Lopez

Damon Chua

Herald Yun Chen

Xiaoxin Chen

Yang Dong Shao

Vincent Kartili

William Pan

Zhiyi Yu

AMENDMENT NO. 2
TO
SOHU.COM INC.
THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
(signature page continued)

THE GOLDMAN SACHS GROUP, INC.

By: _____

Name:

Title:

THE STONE STREET FUND 2000,
L.P.

By: _____

Name:

Title:

THE BRIDGE STREET SPECIAL
OPPORTUNITIES FUND 2000, L.P.

By: _____

Name:

Title:

Scott Wilson, Jr.

Jon Michael Bryant

Guochun Zhao

AMENDMENT NO. 2
TO
SOHU.COM INC.
THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
(signature page continued)

Bo Chen

Larry Sun

Xueping Zhou

Robert Chang

Julian Ha

BENCOR LIMITED

By: -----

Name:

Title:

Doris Weinhausen-Nash

AMENDMENT NO. 2
TO
SOHU.COM INC.
THIRD AMENDED AND RESTATED INVESTOR RIGHTS AGREEMENT
(signature page continued)

John Chiung Ting Tsai

AURORA INVESTMENT II, L.L.C.

By:

Name:
Title:

Mao-yen Yen

JOHO PARTNERS, L.P.

By:

Name:
Title:

JOHO FUND, LTD.

By:

Name:
Title:

SURFMAX ESTAR FUND A LLC

By:

Name:
Title:

Exhibit B

Former ChinaRen Stockholders

Joseph Chen (only with respect to shares of Common Stock issued in exchange for shares of Series A Preferred Stock of ChinaRen)
Yunfan Zhou (only with respect to shares of Common Stock issued in exchange for shares of Series A Preferred Stock of ChinaRen)
Nick Yang (only with respect to shares of Common Stock issued in exchange for shares of Series A Preferred Stock of ChinaRen)
Lee Styslinger III
Law & Partners, Attorneys at Law (f/k/a Law & Arthur)
George Lu
Larry Rosenbaum
Zhujun Wang
Li Zhou
Sherry Chen Lin
Jian Liu
Jeffrey Kenneth Lopez
Damon Chua
Herald Yun Chen
Xiaoxin Chen
Yang Dong Shao
Vincent Kartili
William Pan
Zhiyi Yu
The Goldman Sachs Group, Inc.
The Stone Street Fund 2000, L.P.
The Bridge Street Special Opportunities Fund 2000, L.P.
Scott Wilson, Jr.
Jon Michael Bryant
Guochun Zhao
Bo Chen
Larry Sun
Xueping Zhou
Robert Chang
Julian Ha
Bencor Limited
Doris Weinhausen-Nash
John Chiung Ting Tsai
Aurora Investment II, L.L.C.
Mao-yen Yen
Joho Partners, L.P.
Joho Fund, Ltd.
Surfmax Estar Fund A LLC

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM SOHU.COM FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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3-MOS		
	DEC-31-2000	JUL-01-2000
	SEP-30-2000	
		70,061
		0
	1,813	
	144	
		0
	74,756	
		5,306
	800	
	81,108	
4,064		0
	0	
		0
		31
	97,309	
81,108		0
	1,602	
		0
	6,023	
	500	
	0	
	(4,259)	
		0
	0	
		0
		0
		0
	(4,259)	
	(.16)	
	(.13)	