

SOHU COM INC
Form 8-K
October 28, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): October 23, 2003

SOHU.COM INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

0-30961
(Commission File Number)

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

7 Jianguomen Nei Avenue
Bright China Chang An Building

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Tower 2, Room 1519

Beijing 100005

People s Republic of China

(011) 8610-6510-2160

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

Item 7. Financial Statements and Exhibits.

(a) Exhibits.

99.1 Press Release dated October 23, 2003.

99.2 Transcript of third fiscal quarter earnings conference call (excluding question and answer portion).

Item 12. Results of Operations and Financial Condition.

On October 23, 2003, the registrant announced its earnings results for the quarter ended September 30, 2003. A copy of the press release issued by the registrant regarding the foregoing is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

In addition, on October 23, 2003, the registrant's management team hosted a conference call to discuss the earnings press release. A transcript of the call (excluding the question and answer portion of the call) is filed herewith as Exhibit 99.2 and is incorporated herein by reference.

During the question and answer portion of the call, the Company also disclosed that the Company had increased online advertising rates for corporate clients during the third quarter of 2003 and had record order intake for its e-marketing business during the quarter as well.

Safe Harbor Statement

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

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement and reference should be made to this filing and our other filings with the Securities and Exchange Commission. Actual results may differ materially from the results predicted and reported results should not be considered as an indication of future performance.

Potential risks and uncertainties include, but are not limited to, our historical and future losses, limited operating history, uncertain regulatory landscape in the People's Republic of China, general economic conditions, competitors' actions, fluctuations in quarterly operating results, the company's reliance on online advertising sales, e-subscriptions (most of which are collected from a few telecom operators) and e-commerce for its revenues, and the likelihood that e-commerce revenue growth will slow as a result of the loss of Web site union as a source of short messaging service revenue growth. Further information regarding these and other risks is included in our registration statement on Form S-3 filed with the Securities and Exchange Commission on September 30, 2003 and in our other filings with the Securities and Exchange Commission.

SIGNATURES

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

SOHU.COM INC.

DATED: October 28, 2003

By: /s/ Derek Palaschuk

Derek Palaschuk

Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated October 23, 2003
99.2	Transcript of third fiscal quarter earnings conference call (excluding question and answer portion).

SOHU.COM REPORTS THIRD QUARTER 2003 FINANCIAL RESULTS

Third Quarter Operating Profit of US\$9.2 Million and Revenue Growth of 194%

BEIJING, CHINA, October 24, 2003 SOHU.COM Inc. (Nasdaq: SOHU), China's leading online media, communications, commerce and mobile value-added services company, today reported results for the third quarter ending September 30, 2003.

Business Highlights

Highlights for the third quarter 2003:

Revenues rise 194% year-on-year to US\$22.1 million

13th consecutive quarter of double-digit quarterly sequential revenue growth

Advertising revenues rise a record-high 138% year-on-year to US\$8.7 million

Non-advertising revenues grow 248% year-on-year to US\$13.3 million through sustained conversion of SOHU's user base into consumers

Gross margins reach 69%

Operating profit reaches US\$9.2 million with operating profit margins of 42%

Strong Q4 03 momentum with expected net income of US\$10.5 million to US\$11.2 million and earnings per diluted share of US\$0.26 to US\$0.28

SOHU is very pleased to report these strong results in the third quarter. We have added yet another quarter to our longstanding track record of strong, diverse and balanced growth as we tap the revenue potential of various business lines. Among the key drivers of our success in this quarter were the growth in brand advertising and search/paid listing as well as our ongoing ability to have our users adopt a broadening variety of fee-based products and services into their daily lifestyle, said Charles Zhang, Chairman and CEO of SOHU.

Business Results

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The third quarter's financial results reflect the solid foundation of the Company's sustainable and diversified business model: an expanding corporate online advertising base and a massive paying consumer base. During the third quarter SOHU's revenues were derived from a well-balanced 40%-60% mix of advertising and consumer business lines.

For the third quarter of 2003, SOHU's advertising revenue totaled US\$8.7 million, a 138% year-on-year improvement well ahead of company guidance. Advertising revenues (consisting of online brand advertising and search/paid listing) accounted for 40% of total revenues in Q3 2003. Advertising revenue gross margins of 77% increased substantially from 60% in the same period a year ago, underscoring how online advertising has grown into a highly scaleable revenue stream.

We are proud our team accomplished stellar growth in both online brand advertising for large corporate clients and paid listing/search services for thousands of small and medium enterprises. The market for online advertising, paid listing, search and other corporate marketing services is on the rise which offers SOHU, a leading mainstream new media and communications platform in China, opportunities for continued growth momentum, Victor Koo, COO of SOHU, explained.

For the third quarter of 2003 SOHU's non-advertising revenues, which are derived from consumer services, grew 248% year-on-year to US\$13.3 million and contributed 60% of total revenues. Non-

advertising revenue gross margins reached 63%. Q3 2003 non-advertising revenues consisted of US\$12.6 million in e-subscriptions (most of which are from mobile short messaging) and US\$0.7 million in e-commerce sales.

We are confident of the opportunities in China for our wireless services, online games and e-commerce. As these business lines mature, we expect our consumer services to be engines of growth at different times. Our wireless services have been built on the strong foundation of our close cooperation with the mobile operators. We expect quarterly sequential e-subscriptions growth of 12% to 20% in the fourth quarter as SOHU launches new products and widens its reach among consumers. In addition, we will continue to invest in online games and e-commerce, commented Charles Zhang.

In the third quarter, SOHU organized joint marketing events with popular NBA basketball player Yao Ming, who is now the Company's official spokesperson. A September 2003 survey by the Chinese Academy of Social Sciences ranked SOHU.COM the leading destination for search by a 28% margin over the second-ranked web site, reflecting the strong consumer brand awareness of SOHU's flagship product Directory Search.

At September 30, 2003, SOHU's cash and marketable debt securities balance was US\$161.6 million.

During the quarter, SOHU recorded a non-recurring non-cash tax charge of \$6.5 million, which will allow the Company to reduce our effective tax rate to under 3% over the next couple of years generating significant benefit for shareholders.

Through consistent execution SOHU has strengthened its financial metrics with yet another quarter of double-digit sequential revenue growth and our fifth straight profitable quarter, providing a solid basis going forward, Derek Palaschuk, SOHU's Chief Financial Officer, commented.

Business Outlook

SOHU estimates total revenues for the fourth quarter 2003 to be between US\$24.3 million and US\$25.7 million, with advertising revenues of US\$9.4 million to US\$9.6 million and non-advertising revenues of US\$14.9 million to US\$16.1 million. Fourth quarter net income is expected to be between US\$10.5 million and US\$11.2 million or US\$0.26 to US\$0.28 per diluted share.

We are confident of our well-balanced, diversified business model's sustainable growth prospects as well as SOHU's ability to capture the benefits of the growing market in China, concluded Charles Zhang, Chairman and CEO of SOHU.COM.

Safe Harbor Statement

This company's announcement contains forward-looking statements. It is currently expected the Business Outlook will not be updated until the release of SOHU's next quarterly earnings announcement; however, SOHU reserves the right to update its Business Outlook at any time for any reason. We may also make written or oral forward-looking statements in our periodic reports to the Securities and Exchange Commission on Forms 10-K, 10-Q, 8-K, etc., in our annual report to shareholders, in our proxy statements, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about

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our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Potential risks and uncertainties include, but are not limited to, SOHU's historical and possible future losses, limited operating history, uncertain regulatory landscape in the People's Republic of China, fluctuations in quarterly operating results, and the company's reliance on online advertising sales, e-subscriptions (most of which are collected from a few telecom operators) and e-commerce for its revenues. Further information regarding these and other risks is included in SOHU's Annual Report on

Form 10K for the year ended December 31, 2002, Quarterly Report on Form 10Q for the quarter ended June 30, 2003 and other filings with the Securities and Exchange Commission.

Conference Call

SOHU's management team will host a conference call at 8:30 PM EST, October 23, 2003 (8:30 AM on October 24, 2003 in the Hong Kong/China time zone) following the quarterly results announcement.

The conference call will be available on web cast live and replay at:

<http://www.sohu.com/about/English/conference.htm>

Conference call dial-in details: TELEPHONE: from within U.S.A. at (1)773-756-4618; from Hong Kong at (852) 2258-4002; or from China at 10-800-852-0823 (toll free), PASSCODE: 7827815, LEADER: Caroline Straathof.

Instant replay dial-in numbers (available for 24 hours): TELEPHONE from within U.S.A: (1-402) 220-0229; or from Hong Kong at (852) 2802-5151; PASSCODE: 706700.

About SOHU

SOHU.com is one of China's most recognized and established Internet brands and indispensable to the daily life of millions of Chinese who use the portal for e-mail, alumni club, short messaging services, news, search, games, browsing and shopping. Apart from continuous product and services development, SOHU.com also concentrates its efforts on making the Internet ubiquitously available, whether in the office, at home or on the road. SOHU.com, established by Dr. Charles Zhang, one of China's Internet pioneers, is in its seventh year of operation.

For further information:

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<http://www.sohu.com/about/English/>

SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended			Nine Months Ended	
	Sep. 30, 2003	Jun. 30, 2003	Sep. 30, 2002	Sep. 30, 2003	Sep. 30, 2002
Revenues:					
Advertising	\$ 8,748	\$ 6,801	\$ 3,674	\$ 20,025	\$ 9,548
Non-advertising	13,332	12,548	3,834	35,815	8,617
Total revenues	22,080	19,349	7,508	55,840	18,165
Cost of revenues:					
Advertising	1,973	1,750	1,472	5,325	4,430
Non-advertising	4,928	4,521	1,871	13,103	4,919
Total cost of revenues	6,901	6,271	3,343	18,428	9,349
Gross profit	15,179	13,078	4,165	37,412	8,816
Operating expenses:					
Product development	1,968	1,926	1,474	5,642	3,959
Sales and marketing	2,839	2,528	1,862	7,366	5,749
General and administrative	1,181	1,312	955	3,575	2,906
Total operating expenses	5,988	5,766	4,291	16,583	12,614
Operating profit/(loss)	9,191	7,312	(126)	20,829	(3,798)
Other income/(expense)	(552)	(129)	(67)	(743)	(103)
Interest income	532	343	305	1,202	934
Net income/(loss) before taxes	9,171	7,526	112	21,288	(2,967)
Income tax provision	6,500			6,500	
Net income	2,671	7,526	112	14,788	(2,967)
Basic net income/(loss) per share	\$ 0.07	\$ 0.21	\$ 0.00	\$ 0.42	\$ (0.08)
Shares used in computing basic net income/(loss) per share	35,824	35,286	35,715	35,289	35,660
Diluted net income/(loss) per share	\$ 0.07	\$ 0.19	\$ 0.00	\$ 0.37	\$ (0.08)
Shares used in computing diluted net income/(loss) per share	39,176	40,036	37,413	40,004	35,660

SOHU.COM INC.

CONSOLIDATED SUMMARY BALANCE SHEET DATA

(UNAUDITED, IN THOUSANDS)

	Sep. 30,	Dec. 31,
	2003	2002
	<u> </u>	<u> </u>
ASSETS		
Cash, cash equivalents and investments in marketable debt securities	\$ 161,555	\$ 44,211
Accounts receivable, net	11,814	3,954
Prepaid and other current assets	2,945	2,009
Fixed assets, net	5,574	6,012
Loans to related parties		4,827
Other assets	5,891	959
	<u> </u>	<u> </u>
	187,779	61,972
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable and accrued liabilities	15,839	5,119
Deferred revenues	4,028	1,622
Long term debt	90,000	
	<u> </u>	<u> </u>
Total liabilities	109,867	6,741
Shareholders' equity	77,912	55,231
	<u> </u>	<u> </u>
	\$ 187,779	\$ 61,972
	<u> </u>	<u> </u>

SOHU.COM INC.

SEGMENT INFORMATION

(UNAUDITED, IN THOUSANDS)

	Three Months Ended			Nine Months Ended	
	Sep. 30, 2003	Jun. 30, 2003	Sep. 30, 2002	Sep. 30, 2003	Sep. 30, 2002
Revenues:					
Advertising	8,748	6,801	3,674	20,025	9,548
Non-advertising:					
E-subscription	12,640	11,564	2,582	32,882	5,348
E-commerce	692	984	1,207	2,851	3,035
Other			45	82	234
Subtotal non-advertising revenues	13,332	12,548	3,834	35,815	8,617
Total revenues	22,080	19,349	7,508	55,840	18,165
Cost of revenues:					
Advertising	1,973	1,750	1,472	5,325	4,430
Non-advertising:					
E-subscription	4,299	3,630	888	10,575	2,104
E-commerce	629	891	983	2,528	2,551
Other					