

SOHU COM INC  
Form DEF 14A  
April 30, 2009

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**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  Confidential, for Use of the Commission Only  
(as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

**Sohu.com Inc.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other than Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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- (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
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  - (5) Total fee paid:
- Fee paid previously with preliminary materials.
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- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:
- 

April 30, 2009

Dear Sohu.com Stockholders:

You are cordially invited to attend Sohu.com Inc.'s Annual Meeting of Stockholders to be held at our offices at Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China, on Friday, June 19, 2009 at 10:00 A.M., Beijing time.

This year we are again using the U.S. Securities and Exchange Commission rules that allow companies to furnish proxy materials to their stockholders primarily over the Internet. We believe that providing our proxy materials over the Internet increases the ability of our stockholders to connect with the information they need, while reducing the cost and environmental impact of our Annual Meeting. On or about May 8, 2009, we will mail our stockholders a notice containing instructions on how to access our 2009 Proxy Statement and 2008 Annual Report to Stockholders. The notice also will include instructions on how to receive a paper copy of the annual meeting materials, including the notice of annual meeting, proxy statement and proxy card. If you receive your annual meeting materials by mail, the notice of annual meeting, proxy statement and proxy card will be enclosed. If you receive your annual meeting materials via e-mail, the e-mail contains links to the annual report and the proxy statement on the Internet which are both available at <http://bnymellon.mobular.net/bnymellon/sohu>.

At this year's Annual Meeting, we are asking stockholders to elect four directors, who shall serve for a two-year term or until their earlier death, resignation or removal, and to ratify the appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as our independent auditors. The Board of Directors recommends that you vote FOR the election of the director nominees and FOR the ratification of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as our independent auditors. Please refer to the Proxy Statement for detailed information on each of the proposals and the Annual Meeting.

Every stockholder's vote is important to us. Whether or not you expect to attend the meeting in person, we urge you to submit your proxy as soon as possible. You may vote over the Internet, by telephone or, if you ask for and receive paper copies of the proxy materials, by mail.

We look forward to seeing those of you who are able to attend the meeting in person.

Sincerely,

Charles Zhang  
*Chief Executive Officer*

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
OF  
SOHU.COM INC.**

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**TO BE HELD June 19, 2009  
10:00 A.M. BEIJING TIME**

April 30, 2009

To the Stockholders of Sohu.com Inc.:

We hereby notify you that the Annual Meeting of Stockholders (the "Annual Meeting") of Sohu.com Inc. will be held at our offices at Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China, on Friday, June 19, 2009 at 10:00 A.M., Beijing time, for the purpose of considering and acting upon the following matters, all as described in the accompanying Proxy Statement:

- 1) To elect four directors, who shall serve for a two-year term or until their earlier death, resignation or removal;
- 2) To ratify the appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as our independent auditors for the fiscal year ending December 31, 2009; and
- 3) To consider and act upon all other matters which may properly come before the Annual Meeting or any adjournment or postponement thereof.

We have not received notice of other matters that may be properly presented at the Annual Meeting. Our Board of Directors has set the close of business on Friday, April 17, 2009, as the record date for the purpose of determining the holders of our common stock entitled to notice of, and to vote at, the Annual Meeting or any adjournment or postponement thereof, and only stockholders of record on that date are entitled to notice of, and to vote, at the Annual Meeting.

By order of the Board of Directors,

/s/ Timothy B. Bancroft

Timothy B. Bancroft  
*Secretary*

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**SOHU.COM INC.**  
**Level 12, Sohu.com Internet Plaza**  
**No. 1 Unit Zhongguancun East Road, Haidian District**  
**Beijing 100084, People's Republic of China**  
**(011) 8610-6272-6666**

**ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD June 19, 2009**  
**10:00 A.M. BEIJING TIME**

**PROXY STATEMENT**

We are furnishing proxy materials to our stockholders primarily by providing access to the materials on the Internet instead of mailing printed copies. On or about May 8, 2009, we will mail to our stockholders (other than those who had previously requested email delivery) a Notice of Internet Availability containing instructions on how to access our proxy materials, including our proxy statement and our 2008 Annual Report to Stockholders. If you would like to receive a paper copy of our proxy materials, you should follow the instructions in the Notice of Internet Availability for requesting these materials.

This Proxy Statement is furnished to our stockholders in connection with the solicitation by our Board of Directors (our Board) of our proxies for use at our Annual Meeting of Stockholders (the Annual Meeting) to be held at our offices located at Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China, on Friday, June 19, 2009 at 10:00 A.M., Beijing time, and at any adjournment or postponement thereof.

If proxies are completed and submitted, the shares they represent will be voted at the Annual Meeting in accordance with the instructions of the stockholder. If no specific instructions are given, the shares represented by proxies will be voted as follows:

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FOR the election of the nominees for directors named herein; and

FOR the ratification of the appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company ( PricewaterhouseCoopers ) as our independent auditors for the fiscal year ending December 31, 2009.

In addition, if other matters come before the Annual Meeting, the persons named as proxy holders, Dr. Charles Zhang and Ms. Carol Yu, will vote in accordance with their judgment with respect to those matters. You have the power to revoke your proxy at any time prior to its exercise by filing with Ms. Yu, our Co-President and Chief Financial Officer, an instrument revoking it, by submitting an executed proxy bearing a later date prior to or as of the Annual Meeting or by attending the Annual Meeting and voting in person.

### Expenses and Solicitation

We will bear the cost of soliciting proxies. Solicitations may be made by mail, personal interview, telephone, email or otherwise by our directors, officers and employees, without additional compensation for such solicitation activities. We have made arrangements with BNY Mellon Shareowner Services at 480 Washington Boulevard, 26th Floor, Jersey City, NJ 07310, and Georgeson Inc. at 219 Murray Hill Parkway, East Rutherford, NJ 07073, to assist with the solicitation of proxies. We are required to request that brokers and nominees who hold stock in their names furnish our proxy materials to the beneficial owners of the stock, and we must reimburse these brokers and nominees for the expenses of doing so in accordance with statutory fee schedules. The estimated cost of soliciting proxies is not expected to exceed \$100,000.

### Voting Procedures

Only stockholders of record on our books at the close of business on April 17, 2009, the record date relating to the Annual Meeting, will be entitled to vote at the Annual Meeting and any adjournment or postponement thereof. Each share of our common stock outstanding on the record date will be entitled to one vote on each of the director nominees and one vote on the ratification of the appointment of PricewaterhouseCoopers as our independent

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auditors. Under our Amended and Restated By-laws, the presence in person or by proxy of a majority of the shares of our common stock outstanding on the record date is required for a quorum. Abstentions and broker non-votes are each included for purposes of determining the presence or absence of a sufficient number of shares to constitute a quorum for the transaction of business. With respect to the approval of any particular proposal, abstentions and broker non-votes are not counted in determining the number of votes cast. The election of directors requires a plurality of the votes cast in person or by proxy. The nominees receiving the highest number of affirmative votes of the shares present or represented and voting on the election of the directors at the Annual Meeting will be elected as directors. The ratification of the appointment of PricewaterhouseCoopers as our independent auditors requires the affirmative vote of the holders of a majority of the shares of our common stock that are present in person or by proxy at the Annual Meeting.

As of the close of business on April 17, 2009, there were 38,263,561 shares of our common stock outstanding.

### Proposal I. Election of Directors

Our Board is divided into two classes, with each class holding office for a term of two years and the term of one class expiring each year. All directors will hold office until their successors have been duly elected and qualified or until their earlier death, resignation or removal. Our Board has fixed the number of directors to constitute the full Board for the ensuing year at six, four of whom are to be elected at the Annual Meeting for a term expiring at the 2011 Annual Meeting of Stockholders and two directors whose term will expire at the 2010 Annual Meeting of Stockholders.

At the recommendation of the Nominating Committee of our Board, our Board has nominated Dr. Charles Zhang, Mr. Charles Huang, Dr. Dave Qi and Mr. Shi Wang for election in the class of directors to be elected at the Annual Meeting whose term will expire in 2011. Unless you indicate otherwise on your proxy, the proxies received will be voted in favor of the election of Dr. Charles Zhang, Mr. Charles Huang, Dr. Dave Qi and Mr. Shi Wang to serve as directors.

Our Board knows of no reason why any of the nominees would be unable or unwilling to serve, but if that should be the case, proxies will be voted for the election of substitute nominee(s) selected by our Board, or our Board will fix the number of directors at a lesser number. The proxies cannot be voted for a greater number of persons than the number of nominees named in this Proxy Statement. The four nominees receiving a plurality of the votes cast by the stockholders represented at the Annual Meeting, in person or by proxy, will be elected as directors.

**OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF DR. CHARLES ZHANG, MR. CHARLES HUANG, DR. DAVE QI AND MR. SHI WANG**

The table below sets forth certain information with respect to the nominees for election to our Board and those directors whose terms of office will continue after the Annual Meeting. All of the nominees for election as directors are currently serving on our Board.

|   |   |   |
|---|---|---|
| <p><b>Dr. Charles Zhang</b><br/>Chairman of our Board and Chief Executive Officer.<br/>44 years old.<br/>Director since 1996.</p> | <p>Dr. Zhang is our Founder and has been Chairman of our Board and Chief Executive Officer since August 1996. Dr. Zhang also served as our President from August 1996 to July 2004. Prior to founding Sohu.com Inc., Dr. Zhang worked for Internet Securities Inc. and helped to establish its China operations. Prior to that, Dr. Zhang worked as Massachusetts Institute of Technology's liaison officer with China. Dr. Zhang has a Ph.D in experimental physics from Massachusetts Institute of Technology (MIT) and a Bachelor of Science degree from Tsinghua University in Beijing. Dr. Zhang is a native of the People's Republic of China. Dr. Zhang is also the Chairman of the Board of Changyou.com Limited, our publicly-traded massively multi-player online role-playing game, or MMORPG, subsidiary.</p> | <p>Dr. Zhang's term expires at the 2009 Annual Meeting.</p> |
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| <p><b>Mr. Charles Huang</b><br/>Chief Executive Officer and Chairman of Netbig Education Holdings Ltd.<br/>39 years old.<br/>Director since 2001.<br/>(1)(3)</p> | <p>Mr. Huang is the Founder, Chief Executive Officer and Chairman of Netbig Education Holdings Ltd., a leading education enterprise in China. Prior to founding Netbig in 1999, Mr. Huang served as Executive Director and Head of Asia Securitization Group of Deutsche Bank, New York and Hong Kong, as well as Senior Vice President of Prudential Securities Inc., New York. He holds a Master of Science degree in Computer Science from MIT and a Bachelor of Science degree from the University of Science and Technology of China. Mr. Huang is also a Chartered Financial Analyst.</p> | <p>Mr. Huang's term expires at the 2009 Annual Meeting.</p> |
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| <p><b>Dr. Dave Qi</b><br/>Professor of Accounting and Associate Dean, the Cheung Kong Graduate School of Business.<br/>45 years old.<br/>Director since 2005.<br/>(1)(2)(3)</p> | <p>Dr. Qi is a Professor of Accounting and the Associate Dean of the Cheung Kong Graduate School of Business. He began teaching at the Cheung Kong Graduate School of Business in 2002 and was the founding Director of the Executive MBA program. Before joining the Cheung Kong Graduate School of Business, Dr. Qi was an Associate Professor at the School of Accounting of the Chinese University of Hong Kong. Dr. Qi has published many articles and research essays on accounting, financial reporting, capital market and other related topics. He has a Ph.D. in accounting from the Eli Broad Graduate School of management of Michigan State University, a Master of Business Administration from the University of Hawaii at Manoa and a Bachelor of Science and a Bachelor of Arts degree from Fudan University. Dr. Qi is currently a member of the American Accounting Association.</p> | <p>Dr. Qi's term expires at the 2009 Annual Meeting.</p> |
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| <p><b>Mr. Shi Wang</b><br/>Chairman of China Vanke Co., Ltd.<br/>58 years old.<br/>Director since 2005.<br/>(3)</p> | <p>Mr. Wang is the Chairman of the Board of Directors of China Vanke Co., Ltd., of which he also served as General Manager from 1991 to 1999. Mr. Wang founded the Shenzhen Exhibition Center of Modern Science and Education Equipment in 1984, which is the predecessor of China Vanke Co., Ltd. Mr. Wang is the Executive Manager of the China Real Estate Association and is Deputy Director of the City Housing Development Council of the China Real Estate Association.</p> | <p>Mr. Wang's term expires at the 2009 Annual Meeting.</p> |
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| <p><b>Dr. Edward B. Roberts</b><br/>Professor of Management of Technology at Massachusetts Institute of Technology's Alfred P. Sloan School of</p> | <p>Dr. Roberts is the David Sarnoff Professor of Management of Technology at MIT's Alfred P. Sloan School of Management. Dr. Roberts chaired MIT's research and educational programs in the management of technological innovation from 1967 to 1993 and also founded and chairs the MIT Entrepreneurship Center. Dr. Roberts is currently a director of Medical Information Technology, Inc. Dr. Roberts has authored over 160 articles and eleven books, one of which is <i>Entrepreneurs in High Technology</i> (Oxford University Press, 1991). Dr. Roberts received four degrees from MIT, including a Ph.D in 1962.</p> | <p>Dr. Roberts' term expires at the 2010 Annual Meeting.</p> |
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Management.  
73 years old.  
Director since 1996.  
(2)(3)

**Dr. Zhonghan Deng**  
Chairman and Chief  
Executive  
Officer of Vimicro  
Corporation.  
41 years old.  
Director since 2007.  
(1)(3)

Dr. Deng is the Chief Executive Officer and Chairman of the Board of Directors of Vimicro Corporation (NASDAQ: VIMC), which he co-founded in 1999. Dr. Deng received a Ph.D. in electrical engineering and computer sciences, a Master of Science degree in economics and a Master of Science degree in physics from the University of California, Berkeley. After graduating from Berkeley, Dr. Deng worked as a research scientist for International Business Machines Corporation at the T.J. Watson Research Center in Yorktown Heights, New York.

*Dr. Deng's term expires at the at 2010 Annual Meeting.*

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- (1) member of our Audit Committee
  - (2) member of our Compensation Committee
  - (3) member of our Nominating Committee

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## GENERAL INFORMATION RELATING TO OUR BOARD OF DIRECTORS

### Our Board of Directors

Our Board held four formal meetings in the fiscal year ended December 31, 2008 and acted by written consent in lieu of meeting on two occasions. In addition to the formal meetings and written consents, the Board also acted through email communications, with Board actions by email being ratified at subsequent meetings of the Board. With the exception of Mr. Shi Wang, all members of our Board attended at least 75% of the total number of meetings of our Board and committees thereof upon which they served during 2008. Members of our Board are encouraged, but not required, to attend our annual meetings of stockholders. At our 2008 Annual Meeting of Stockholders, Dr. Charles Zhang was in attendance.

### Independence

Our Board has determined that Messrs. Charles Huang and Shi Wang, and Drs. Dave Qi, Edward B. Roberts and Zhonghan Deng are independent as that term is defined in Rule 4200(a)(15) of the Nasdaq Stock Market Marketplace Rules. In determining independence pursuant to the Nasdaq listing standards, our Board affirmatively determined whether such independent directors had any material relationship with us, or any of our subsidiaries, either directly or as a partner, stockholder or officer of an organization that may interfere with the director's ability to exercise independence. Our Board concluded that none of the independent directors had any direct or indirect material relationships with us, or any of our subsidiaries. Our Board considers what it deems to be all relevant facts and circumstances in determining the independence of its members including whether our directors have any family relationship with any executive officer or any direct or indirect interest in any of our customers or our customer agreements, whether any of our directors have any interests in or ties to any of our competitors, suppliers or strategic business partners and whether our members meet the independence standards set by the Securities and Exchange Commission (SEC) and Nasdaq.

### Committees of our Board of Directors

Our Board has established a standing Audit Committee, Compensation Committee and Nominating Committee.

#### *Audit Committee*

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The members of our Audit Committee currently are Dr. Dave Qi, Mr. Charles Huang and Dr. Zhonghan Deng, who are each independent as that term is defined in Rule 4200(a)(15) of the Nasdaq Stock Market Marketplace Rules. Our Board has determined that Dr. Dave Qi is an Audit Committee financial expert, as that term is defined in Item 407(d)(5) of Regulation S-K. Our Audit Committee oversees our internal audit function and our accounting and financial reporting processes and the audits of our financial statements. Our Audit Committee held four meetings in 2008. In addition to the formal meetings, our Audit Committee also acted through email communications, with Audit Committee actions by email being ratified at subsequent meetings of the Audit Committee. Our Audit Committee and the full Board have adopted a written charter for our Audit Committee. Our Audit Committee appointed PricewaterhouseCoopers to serve as our independent auditors for the fiscal year ended December 31, 2009. The full responsibilities of our Audit Committee are set forth in its charter, which is reviewed and updated annually and approved by our Board, and is posted on our Web site at [www.sohu.com](http://www.sohu.com) (to access the charter, click on the link "About Sohu" at the bottom of the first page, and follow the links through "Investor Relations"). For more information, see "Audit Committee Report."

### *Compensation Committee*

The members of our Compensation Committee currently are Drs. Edward B. Roberts and Dave Qi, who are each independent as that term is defined in Rule 4200(a)(15) of the Nasdaq Stock Market Marketplace Rules. Our Compensation Committee acted by written consent in lieu of meeting on one occasion and acted through e-mail communications among its members, and made recommendations to our Board, on one occasion in 2008. Our Compensation Committee makes recommendations concerning salaries and incentive compensation, administers

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and approves restricted stock unit and stock option grants under our 2000 Stock Incentive Plan, as amended, and otherwise determines compensation levels and performs such other functions regarding compensation as our Board may delegate to our Compensation Committee. Our Compensation Committee does not have a written charter. Our Compensation Committee designed an executive compensation program in order to reward excellent performance and retain talented executive officers through a combination of cash and equity incentive awards. The Compensation Discussion and Analysis below provides additional information regarding the Compensation Committee's determination of named executive officer and director compensation levels and our Compensation Committee's policies and procedures in making such determinations.

### *Nominating Committee*

The members of our Nominating Committee currently are Messrs. Charles Huang and Shi Wang and Drs. Dave Qi, Edward B. Roberts and Zhonghan Deng, who are each independent as that term is defined in Rule 4200(a)(15) of the Nasdaq Stock Market Marketplace Rules. The purpose of our Nominating Committee is to assist our Board in identifying individuals qualified to become directors under criteria approved by our Board, periodically review director compensation and benefits, recommend to our Board any proposed revisions to our corporate governance guidelines and assist our Board in assessing directors' independence, board effectiveness, continuing education, new director orientation and committee membership. Our Nominating Committee did not hold any meetings in 2008. The full responsibilities of our Nominating Committee are set forth in its charter which is posted on our Web site at [www.sohu.com](http://www.sohu.com) (to access the charter, click on the link "About Sohu" at the bottom of the first page, and follow the links through "Investor Relations").

It is a policy of our Nominating Committee that candidates for director (i) be determined to have unquestionable integrity and honesty, (ii) have the ability to exercise sound, mature and independent business judgment which is in the best interests of the stockholders as a whole, (iii) have a background and experience in fields which will compliment the talents of the other Board members, (iv) have the willingness and capability to take the time to actively participate in Board and committee meetings and related activities, (v) have the ability to work professionally and effectively with other Board members and our management, (vi) have the ability to remain on our Board long enough to make a meaningful contribution and (vii) have no material relationships with competitors or other third parties that could create a reasonable likelihood of a conflict of interest or other legal issues.

When considering potential director nominees, our Nominating Committee also considers our Board's current composition and our evolving needs, including expertise, diversity and balance of inside, outside and independent directors. In compiling a list of possible candidates and considering their qualifications, our Nominating Committee makes its own inquiries, solicits input from other directors on our Board and may consult or engage other sources, such as a professional search firm, if it deems appropriate.

Our Nominating Committee will consider director candidates recommended by stockholders provided the stockholders follow the procedures set forth below. There were no material changes to such procedures after we last provided this disclosure. The committee does not intend to alter the manner in which it evaluates candidates, including the criteria set forth above, based on whether the candidate was recommended by a stockholder or otherwise.



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Stockholders who wish to recommend individuals for consideration by our Nominating Committee to become nominees for election to our Board at the 2010 Annual Meeting of Stockholders may do so by submitting a written recommendation to the committee, care of Sohu.com Inc., at Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China, Attention: Helen Zhang, in accordance with the procedures set forth below in this Proxy Statement under the heading "Deadline for Receipt of Stockholder Proposals." For candidates recommended by stockholders to be considered for election to our Board, the following information concerning each nominee must be timely submitted in accordance with the required procedures:

The candidate's name, age, business address, residence address, principal occupation or employment, the class and number of shares of our capital stock the candidate beneficially owns, a brief description of any direct or indirect relationships with us and other information that would be required in a proxy statement soliciting proxies for the election of the candidate as a director;

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A signed consent of the nominee to being named as a nominee, to cooperate with reasonable background checks and personal interviews and to serve as a director, if elected; and

As to the stockholder proposing such nominee, that stockholder's name and address, the class and number of shares of our capital stock the stockholder beneficially owns, a description of all arrangements or understandings between the stockholder and the candidate and any other person or persons (including their names) pursuant to which the recommendation is being made, a list of all other companies that the stockholder has recommended the candidate to for election as a director in that fiscal year, and a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the person named in its notice.

### BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth certain information regarding the beneficial ownership of our common stock as of April 15, 2009 by (i) each person (including any group as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act")) known by us to be the beneficial owner of more than 5% of our common stock (assuming conversion of all outstanding exercisable options and warrants held by that person), (ii) each current director and nominee for election as director, (iii) each named executive officer and (iv) all of our current directors and executive officers as a group. Except as otherwise provided in the footnotes to this table, we believe that the persons named in this table have voting and investment power with respect to all the shares of common stock indicated.

| Name and Address of Beneficial Owner                                     | Amount and Nature of<br>Beneficial<br>Ownership(1) | Percent of<br>Class(1) |
|--|--|------------------------|
| Charles Zhang  | 7,418,000(2)                                       | 19.34%                 |
| Edward Roberts   | 747,869(3)   | 1.95%                  |
| Carol Yu   | 78,125(4)  | *                      |
| Yu Gong  | 27,313(5)  | *                      |
| Charles Huang  | 59,894(6)  | *                      |
| Xin (Belinda) Wang   | 47,500(7)  | *                      |
| Shi Wang   | 20,894(8)  | *                      |
| Dave Qi  | 20,894(9)  | *                      |
| Zhonghan Deng  | 4,871(10)  | *                      |
| All directors, nominees and executive officers as a group<br>(8 persons) | 8,425,360(11)                                      | 21.91%                 |
| Photon Group Limited   | 6,737,000(12)                                      | 17.61%                 |
| FMR LLC  | 3,857,500(13)                                      | 10.08%                 |
| Coatue Management LLC  | 2,788,226(14)                                      | 7.29%                  |

\* Less than 1%.

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- (1) Includes the number of shares and percentage ownership represented by such shares determined to be beneficially owned by a person in accordance with the rules of the SEC. The number of shares beneficially owned by a person includes shares of common stock subject to options, restricted stock units, convertible debt or warrants held by that person that are currently exercisable or convertible or exercisable or convertible within 60 days of April 15, 2009. Such shares are deemed outstanding for the purpose of computing the percentage of outstanding shares owned by that person. Such shares are not deemed outstanding, however, for the purpose of computing the percentage ownership of each other person.
- (2) Includes (i) 87,438 shares of our common stock subject to options exercisable within 60 days of April 15, 2008 and (ii) 6,737,000 shares of our common stock beneficially owned by Photon Group Limited. Dr. Zhang is a Director of Photon Group Limited and therefore may be deemed to be a beneficial owner of shares owned by it. Dr. Zhang disclaims beneficial ownership of such shares. Dr. Zhang's address is c/o Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.
- (3) Includes (i) 24,000 shares of our common stock subject to options held by Dr. Edward B. Roberts which are exercisable within 60 days of April 15, 2009; (ii) 166,722 shares of our common stock held by the Dr. Edward B. Roberts Trust 2003, dated as of October 3, 2003; and (iii) 309,000 shares of our common stock held by the Nancy H. Roberts Trust 2003, dated as of October 3, 2003. Dr. Roberts and his wife, Nancy Roberts, are the trustees of both trusts. Dr. Roberts's address is 300 Boylston Street, Boston, Massachusetts 02116, U.S.A.

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- (4) Includes 2,500 shares of our common stock subject to options exercisable within 60 days of April 15, 2009. Ms. Yu's address is c/o Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing, People's Republic of China 100084.
- (5) Includes 2,813 shares of our common stock subject to options exercisable within 60 days of April 15, 2009. Dr. Gong resigned as our Chief Operating Officer effective January 2009. Dr. Gong's options to purchase 2,813 shares of our common stock continued to vest through April 15, 2009 in accordance with the applicable vesting schedules and these options, and all vested options he holds that have vested, are exercisable by him until June 30, 2009. Dr. Gong's address is Department of Automation, Tsinghua University, Haidian District, Beijing, People's Republic of China.
- (6) Includes 49,000 shares of our common stock subject to options exercisable within 60 days of April 15, 2009. Mr. Huang's address is Suite 5206, Central Plaza, 18 Harbour Road, Hong Kong.
- (7) Includes 8,126 shares of our common stock subject to options exercisable within 60 days of April 15, 2009. Ms. Wang's address is c/o Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.
- (8) Includes 10,000 shares of our common stock subject to options exercisable within 60 days of April 15, 2009. Mr. Wang's address is Vanke Architecture Research Center, No. 68 Meilin Road, Futian District, Shenzhen 518049, People's Republic of China.
- (9) Includes 10,000 shares of our common stock subject to options exercisable within 60 days of April 15, 2009. Dr. Qi's address is c/o Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.
- (10) Dr. Deng's address is c/o Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.
- (11) Includes 193,877 shares of our common stock that such persons have the right to acquire pursuant to currently exercisable options or options that may be exercised within 60 days of April 15, 2009.
- (12) Includes 1,300,000 shares of our common stock pledged to Credit Suisse pursuant to a variable pre-paid forward contract maturing May 9, 2011. Photon Group Limited's address is c/o Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.
- (13) FMR LLC's address is Fidelity Management & Research Company (Fidelity), 82 Devonshire Street, Boston, Massachusetts 02109, U.S.A.

(14) Coatue Management LLC's address is 126 East 56th Street, New York, New York 10022, U.S.A.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and executive officers and holders of more than 10% of our common stock to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Directors, executive officers and holders of more than 10% of our common stock are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of copies of reports furnished to us or written representations that no other reports were required, we believe that during the fiscal year ended December 31, 2008, our directors, executive officers and holders of more than 10% of our common stock timely complied with all applicable Section 16(a) reporting requirements.

#### **TRANSACTIONS WITH RELATED PERSONS**

##### **Transactions with Vanke Co., Ltd.**

In the 2008 fiscal year, China Vanke Co., Limited purchased \$154,000 in advertising services from us. Mr. Shi Wang, one of our directors, is the Chairman of the Board of China Vanke Co., Limited.

##### **Policies and Procedures For Reviewing Transactions with Related Persons**

We review all relationships and transactions into which we enter to determine whether such relationships and transactions exceed \$120,000 and whether they involve any related persons who have a direct or indirect material interest in such relationships or transactions. The term "related person" has the same meaning as set forth in Item 404(a) of Regulation S-K. We have developed and implemented processes and controls whereby we solicit information from persons identified as related persons through written questionnaires and, based on the information obtained and the facts and circumstances of the relationship, make a determination as to whether the related person has a direct or indirect material interest in the transaction.

In addition, pursuant to its duties under its written charter, our Audit Committee reviews and approves or ratifies, as the case may be, any related person transactions identified through the process described above. In

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deciding whether to approve or ratify a related person transaction, our Audit Committee considers the following factors:

the nature of the related person's interest in the transaction;

the material terms of the transaction, including, without limitation, the amount and type of transaction;

the importance of the transaction to the related person and to us;

whether the transaction would impair the judgment of any of our directors or executive officers to act in our best interest;

whether the terms of the transaction are substantially equal to or more favorable to us and no more favorable to the related person than if we had negotiated similar arrangements with non-affiliated third parties; and

any other matters our Audit Committee deems appropriate.

Any member of our Board who is a related person with respect to a transaction under review may not participate in the deliberations or vote respecting approval or ratification of the transaction, provided, however, that such director may be counted in determining the presence of a quorum at a meeting where the transaction is considered.

To our knowledge, since January 1, 2008, all transactions with related persons to which we are or were a party have been reviewed under the policies and procedures described above.

### AUDIT COMMITTEE REPORT

The Audit Committee assists the Board of Directors (our Board) in its oversight of Sohu.com Inc.'s, or Sohu's, financial reporting, internal controls and audit functions, and is directly responsible for the appointment, retention, compensation and oversight of the work of Sohu's independent auditors. The full responsibilities of the Audit Committee are set forth in the Audit Committee charter. The Audit Committee charter, which is reviewed and updated annually, was approved by the Board.

The Audit Committee reviews the scope of the annual audit by Sohu's independent auditors and internal auditors, monitors internal financial and accounting controls and procedures and appoints the independent auditors. In fulfilling its responsibilities, the Audit Committee:

discussed and considered the independence of PricewaterhouseCoopers, reviewing as necessary all relationships and services which might bear on PricewaterhouseCoopers' objectivity as independent auditors;

received a formal written statement from PricewaterhouseCoopers describing relationships between PricewaterhouseCoopers and Sohu in accordance with the applicable requirements of the Public Company Accounting Oversight Board regarding outside auditors' communications with audit committees concerning independence and has discussed with PricewaterhouseCoopers the auditors' independence from Sohu and Sohu's management;

received written affirmation from PricewaterhouseCoopers that it is in fact independent;

discussed the overall audit process, receiving and reviewing all reports of PricewaterhouseCoopers;

provided to PricewaterhouseCoopers full access to the Audit Committee and the full Board to report on all appropriate matters; and

discussed with PricewaterhouseCoopers all matters required to be reviewed under The Public Company Accounting Oversight Board standards.

The Audit Committee met with selected members of management and PricewaterhouseCoopers to review financial statements, including quarterly reports, discussing such matters as the quality of earnings, estimates, reserves and accruals, the suitability of accounting principles, financial reporting decisions and audit adjustments.

The Audit Committee selected PricewaterhouseCoopers as Sohu's independent auditors. In addition, the Audit Committee considered the quality and adequacy of Sohu's internal controls and made recommendations to the full Board for enhancing such controls.

Based upon its work and the information received in the inquiries outlined above, the Audit Committee recommended to the Board that Sohu's audited financial statements be included in Sohu's Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the Securities and Exchange Commission.

Respectfully submitted,

### AUDIT COMMITTEE

Dr. Dave Qi  
Mr. Charles Huang  
Dr. Zhonghan Deng

## Executive Compensation

### EXECUTIVE OFFICERS

Our current executive officers are Dr. Charles Zhang, Ms. Carol Yu, and Ms. Xin (Belinda) Wang. For a description of the background of Dr. Zhang, see Election of Directors.

*Carol Yu*, age 46, is our Co-President and Chief Financial Officer. Ms. Yu joined us in March 2004 as our Chief Financial Officer. From December 2000 until December 2001, Ms. Yu served as Vice President of Guangdong Kelon Refrigerating Company Limited, a home appliance manufacturer in the People's Republic of China (China). From March 1995 until November 2000, Ms. Yu served as Senior Vice-President Investment Banking of Donaldson Lufkin & Jenrette Securities Corporation in Hong Kong. Ms. Yu also worked with Arthur Andersen Hong Kong and Beijing for ten years and was a partner of the Audit Division, holding the position of General Manager of Arthur Andersen-Hua Qiang, the joint venture accounting firm formed between Arthur Andersen and the Ministry of Finance in China. In addition, Ms. Yu is a Hong Kong Certified Public Accountant.

*Xin (Belinda) Wang*, age 38, is our Co-president and Chief Marketing Officer. Ms. Wang is also responsible for managing our real estate website, Focus.cn. Ms. Wang joined us in August 1999 with the marketing department and became marketing manager for Beijing in August 2000. Ms. Wang transferred to head the Northern China brand advertising sales team in March 2001 and now leads the entire China brand advertising sales and marketing efforts. Ms. Wang has been instrumental in developing the online advertising market in China. Prior to joining us, she worked for Internet Securities, Inc. and Motorola, Inc. Ms. Wang received a Bachelor of Arts degree in linguistics from China Industrial and Commercial University.

### COMPENSATION DISCUSSION AND ANALYSIS

The following is a discussion and analysis of our named executive officer compensation program, detailing what we pay to our named executive officers and how our compensation objectives and policies help achieve our business objectives.

#### **Overview of our Named Executive Officer Compensation Program and Objectives**

Our named executive officer compensation program is composed of the following elements:

Cash compensation, which includes an annual salary and the opportunity to earn an annual performance-based cash bonus;

Equity incentive compensation, in the form of stock options and restricted stock units;

Other benefits, in the form of housing allowances, tax equalization, tuition/training reimbursement and premiums paid for health, life and disability insurance; and

Severance benefits.

The goal of our named executive officer compensation program is to attract and retain qualified management and create long-term value for our stockholders. Towards this goal, we have designed and implemented a compensation program for our named executive officers that we believe will: (i) attract and retain accomplished and high-potential executives; (ii) motivate them to achieve both short-term and long-term corporate goals; (iii) reward them for sustained financial and operating performance and leadership excellence; and (iv) align their interests with those of our stockholders. We believe that each element of our compensation program fulfills one or more of these objectives.

#### **Administration and Process**

Our executive compensation program is administered by the Compensation Committee of our Board of Directors (our Board). The Compensation Committee annually reviews the overall compensation of our named executive officers, generally based on recommendations submitted by our Chief Executive Officer. When making recommendations, our Chief Executive Officer takes into consideration the following factors: (1) the competitiveness of the total compensation packages for our named executive officers as compared to similarly

situated named executive officers at our peer companies; (2) the responsibilities of our named executive officers; and (3) other factors such as the exchange rate of U.S. dollars to Chinese RMB. Neither we, nor our Compensation Committee, nor any named executive officer has any contractual arrangement with any compensation consultant who has a role in determining or recommending the amount or form of compensation paid to our named executive officers or any non-employee member of our Board.

In setting a named executive officer's overall compensation level, the Compensation Committee takes into consideration the factors discussed below.

#### ***Reward Excellent Performance***

Each named executive officer's pay level is set to be reflective of his or her management experience and perceived leadership ability, continued high performance and career of service to us. Key elements of our compensation policy that depend upon the named executive officer's performance include:

A discretionary annual performance-based cash bonus that is based on an assessment of the named executive officer's performance against pre-determined quantitative and qualitative measures within the context of our overall performance as a company and the performance of each business segment for which the named executive officer is responsible to oversee; and

Equity incentive compensation in the form of stock options or restricted stock units, the value of which is contingent upon the performance of our common stock in the public trading market, and which are subject to vesting schedules that require continued service.

In addition, in setting compensation levels, the Compensation Committee relies on its judgment of the named executive officer's leadership qualities, operational performance, level of responsibility within and contribution to our business and long-term potential to enhance stockholder value.

#### ***Competitive Compensation Packages***

In order to attract and retain talented executive officers and remain competitive, we consider the prevalent labor market for executive talent generally and at companies with whom we compete for talent within our business sector in China. To this end, our Compensation Committee annually collects compensation data from proxy filings by publicly-traded companies that we consider to be our peer companies. We compile the total compensation paid to the named executive officers of our peer companies and, where available, the amount of base salary, equity-based compensation and other benefits paid by our peer companies to their named executive officers in similar positions as our named executive officers. We then evaluate the total compensation paid to our named executive officers, as well as the individual elements of the pay package, against the compensation paid to individuals in the same or similar position of our peer companies. Generally speaking, we aim to set our total compensation so that it is in the median of the total compensation paid by our peer companies to ensure the competitiveness of our compensation.

When determining which companies should be included in our peer group, our Compensation Committee generally focuses on successful or growing companies in the middle-market technology sector in China that are publicly-traded in the U.S. and surveys companies that the Committee believes to compete with us in attracting upper-level management. Companies in our peer group include, for example:

SINA Corporation;

NetEase.com, Inc.;

Baidu.com, Inc.;

Shanda Interactive Entertainment Ltd.;

The9 Limited;

KongZhong Corporation; and

Ctrip.com International, Ltd.

### ***Other Considerations***

In addition to the use of benchmarking in setting executive compensation levels, the Compensation Committee also takes into consideration the following factors when setting the performance-based cash bonus:

Key financial measurements such as revenue, operating profit, earnings per share and operating margins;

Revenue growth percentage compared with selected competitors to indicate our growth or loss in market share;

Promoting commercial excellence by launching new or continuously improving products or services;

Becoming or remaining as a leading market player and attracting and retaining customers;

Achieving excellence in each named executive officer's business area of responsibility; and

Supporting our values by promoting a culture of integrity and adherence to our code of conduct.

The mix of compensation elements is designed to reward short-term results and motivate long-term performance through a combination of cash and equity incentive awards. The Compensation Committee seeks to balance compensation elements that are based on financial, operational and strategic metrics with others that are based on subjective judgments of each named executive officer's performance.

### **Elements of Compensation**

#### ***Generally***

Our named executive officers' pay is composed of three main components: base salary, annual performance-based cash bonus and long-term equity awards. We do not target a specific weighting of these three components or use a prescribed formula to establish pay levels. Rather our Compensation Committee considers changes in our business, external market factors and our financial position each year when determining pay levels and allocating between long-term and short-term compensation for our named executive officers. The Compensation Committee also considers management's business development goals for the year in setting target bonus levels and performance-based milestones.

We include an equity incentive component as part of our compensation package because we believe equity incentives align the long-term interests of our named executive officers with those of our stockholders. The equity incentive component links a significant portion of compensation to stockholder value as the value of granted equity awards increases or decreases in line with any increase or decrease in the market price of our common stock. Our 2000 Stock Incentive Plan, which was initially approved by our stockholders in 2000 and amended with the approval of our stockholders in 2006, provides us with the ability to make equity-based awards in various forms, including stock options and restricted stock units.

The cash and equity components of compensation are supplemented by various other benefits that provide for housing allowances, tax equalization, tuition/training reimbursement, health, life, travel and disability benefits and severance benefits.

#### **Annual Cash Compensation**

##### ***Base Salary***

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We include base salary as part of each named executive officer's compensation package because we believe that it is appropriate that some amount of the named executive officers' compensation be provided in a fixed amount of cash, in order to provide our executive officers with a basic level of annual income security. When deciding upon an appropriate base salary for each named executive officer, the Compensation Committee considers the named executive officer's previous salary, the amounts paid to the named executive officer's peers both within and outside of our company and the named executive officer's prior performance. Decisions regarding salary increases take similar matters into account.

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The base salary increases from 2007 to 2008 for our named executive officers were as follows:

| Name                      | 2007 Base<br>Salary | 2008 Increase |            | 2008 Base Salary<br>Effective<br>January 1, 2008 |
|---------------------------|---------------------|---------------|------------|--|
|                           |                     | Amount        | Percentage |  |
| <b>Charles Zhang</b>      | \$ 250,000          | \$ 30,000     | 12.00%     | \$ 280,000                                       |
| <b>Carol Yu</b>           | \$ 230,000          | \$ 20,000     | 8.70%      | \$ 250,000                                       |
| <b>Xin (Belinda) Wang</b> | \$ 150,000          | \$ 20,000     | 13.33%     | \$ 170,000                                       |
| <b>Yu Gong(1)</b>         | \$ 150,000          | \$ 20,000     | 13.33%     | \$ 170,000                                       |

(1) Dr. Gong was a named executive officer for the year ended December 31, 2008. Dr. Gong resigned as Chief Operating Officer effective January 2009.

The base salaries of our named executive officers were adjusted in part in 2008 to account for a decrease in the exchange rate of U.S. dollars to Chinese RMB from 7.79 to 7.20.

### *2008 Executive Bonus Plan*

Our 2008 Executive Bonus Plan was intended to establish a direct correlation between the annual cash incentives paid to our named executive officers and our financial and operating performance. We believe that the annual bonus rewards the high-performing officers who drive results in these areas and provides them with an incentive to sustain this performance over a long career with us. Under the plan, the named executive officers were eligible to receive a cash bonus equal to a percentage of their base salaries based on the attainment of certain corporate performance goals which were established at the beginning of the year. Once the overall bonus opportunity is calculated, the Chief Executive Officer, with respect to his direct reports (which include all of the named executive officers other than our Chief Executive Officer), or the Compensation Committee, with respect to the Chief Executive Officer, has the discretion to adjust the bonus opportunity based upon such named executive officer's individual performance during the year of up to 150%. Some or all of the following factors are taken into account in making salary adjustments: (1) progress towards achieving specified objectives; (2) achievement of short-term versus long-term objectives; (3) comparison between our products or services, and similar products and services of our competitors; (4) leadership of the named executive officer; and (5) special contributions, if any. The bonus eligibility as a percentage of base salary, after any discretionary adjustment, varied with respect to each named executive officer as set forth below.

| Name                 | 2008<br>Threshold<br>Bonus<br>Opportunity<br>(as a % of<br>base salary) | 2008<br>Targeted Bonus<br>Opportunity<br>(as a % of<br>base salary) | 2008<br>Maximum Bonus<br>Opportunity<br>(as a % of<br>base salary) |
|----------------------|---|---|--|
| <b>Charles Zhang</b> | 0%  | 47.20%  | 104.70%  |
| <b>Carol Yu</b>      | 0%  | 47.55%  | 105.68%  |



| Name                      | 2008<br>Threshold<br>Bonus<br>Opportunity<br>(as a % of<br>base salary) | 2008<br>Targeted Bonus<br>Opportunity<br>(as a % of<br>base salary) | 2008<br>Maximum Bonus<br>Opportunity<br>(as a % of<br>base salary) |
|---------------------------|---|---|--|
| <b>Xin (Belinda) Wang</b> | 0%  | 46.50%  | 102.75%  |
| <b>Yu Gong</b>            | 0%  | 47.20%  | 104.70%  |

On March 14, 2008, our Compensation Committee established the bonus components for each named executive officer as a percentage of their bonus opportunity. For 2008, our Compensation Committee selected the bonus components and weighting as set forth below for our named executive officers.

| Name                      | 2008 Performance Bonus Components              |                        |                            |   | Total |
|---------------------------|--|------------------------|----------------------------|---|-------|
|                           | Overall<br>Corporate<br>Performance<br>Results | Advertising<br>Results | Non-Advertising<br>Results | Technology,<br>Product and<br>Olympic<br>Project<br>Results |       |
| <b>Charles Zhang</b>      | 50%  | 20%                    | 10%                        | 20%   | 100%  |
| <b>Carol Yu</b>           | 50%  | 0%                     | 20%                        | 30%   | 100%  |
| <b>Xin (Belinda) Wang</b> | 40%  | 60%                    | 0%                         | 0%  | 100%  |
| <b>Yu Gong</b>            | 40%  | 20%                    | 20%                        | 20%   | 100%  |

For 2008, with respect to the overall corporate performance results, advertising results and non-advertising results, our Compensation Committee selected the following performance objectives: (i) GAAP Revenue (weighted

35%), (ii) Non-GAAP Net Income (weighted 35%) and (iii) our GAAP Revenue growth, as a percentage, compared with the GAAP Revenue growth, as a percentage, of our peers which are identified above (weighted 30%). Non-GAAP Net Income is calculated by taking the GAAP Net Income from our audited financial statements and adding back in the compensation cost of the share-based awards granted to employees under the Statement of Financial Accounting Standards 123 (revised 2004), Share-Based Payment ( SFAS 123R ). We used Non-GAAP Net Income because the amount of share-based compensation expense cannot be anticipated by our management and business line leaders and is not included in our annual budgets and quarterly forecasts. In addition, share-based compensation expense does not involve any upfront or subsequent cash outflow, and therefore we do not factor this in when evaluating and approving expenditures or when determining the allocation of our resources to business segments. As a result, our performance measures are based on non-GAAP financial measures that exclude share-based compensation expense. With respect to the objectives in (i) and (ii) above, the total bonus opportunity (e.g., with respect to Dr. Zhang, 35% of the overall corporate performance component was tied to our achieving certain levels of GAAP Revenue and 35% of that component was tied to our achieving certain levels of Non-GAAP Net Income) was subject to a sliding scale, determined by our Compensation Committee, whereby the named executive officer was eligible to receive anywhere from 0% to 140% of the bonus component based on the actual performance of our company. With respect to the objective in (iii) above, the total bonus opportunity (e.g., with respect to Dr. Zhang, 30% of the overall corporate performance component) was subject to a sliding scale, determined by our Compensation Committee, whereby the named executive officer was eligible to receive anywhere from 70% to 130% of the bonus component based on the actual performance of us vis-à-vis our peers.

For 2008, with respect to technology, product and Olympic project results, the named executive officer was entitled to the percentage of the total bonus opportunity if certain milestones were met with respect to the research and development of certain technology and products, as determined by our Compensation Committee. Such milestones included: (1) if there was a plan for a new product, whether such product was launched on time; (2) if there was a plan for developing several products, whether the new products met expectation; (3) for existing products, whether there was any improvement in such products and whether there were any increase in the numbers of the products registered and active

users; and (4) for the Olympic project, whether we would secure the exclusive rights to host all advertising by Beijing sponsors. This bonus component was subject to adjustment based upon a sliding scale, determined by our Compensation Committee, whereby the named executive officer was eligible to receive anywhere from zero to 150% of the bonus component based upon our Chief Executive Officer's evaluation, with respect to his direct reports (which include all of the named executive officers other than our Chief Executive Officer), and our Compensation Committee's evaluation, with respect to the Chief Executive Officer, of the named executive officer's actual performance with respect to the technology, product and Olympic project milestones.

The Compensation Committee believes that these criteria are consistent with the overall goals and long-term strategic direction that our Board has set for our company and are closely related to or reflective of financial performance, operational improvements, growth and return to stockholders.

In establishing performance goals, our Compensation Committee sets threshold, target and maximum levels of attainment. The target performance levels are based on our performance budget and are intended to reward superior performance relative to our peers taking into consideration the market conditions and industry trends that affect us. The target performance levels for each measure are intended to be reasonably attainable given maximum effort on the part of our named executive officers.

The amounts actually paid to our named executive officers based on our financial results described above, the attainment of the technology, product and Olympic project milestones, if applicable to the named executive officer, and in each case as adjusted by our Chief Executive Officer or the Compensation Committee, as applicable, for individual performance, are set forth in the Summary Compensation Table below.

Given that our business plan is highly confidential, we did not publicly disclose specific internal revenue or operating income goals. Revealing specific objectives would provide our competitors and other third parties with insights into our confidential planning process and strategies, thereby causing competitive harm. Our performance goals were designed to be aggressive and there was a risk that bonus awards would not be made at all or would be made at less than 100% of the target amounts. The uncertainty in meeting the performance goals helped ensure that the bonus awards made were truly performance-based, consistent with our strategic objectives.

### ***Annual Equity Compensation***

Our equity-based compensation program is designed to recognize the scope of the named executive officers' responsibilities, reward demonstrated performance and leadership, motivate future superior performance, align the interests of the named executive officers with the interests of our stockholders and retain the named executive officers through the terms of the awards. The vesting terms of the equity-based compensation require continued service to receive any payout and therefore encourage continuity in our management.

We historically have granted stock options to our named executive officers. Stock options only have value to the extent the price of our common stock on the date of exercise exceeds the exercise price on the grant date. Thus, stock options are an effective compensation element only if the stock price grows over the term of the award. In this sense, stock options are a motivational tool. Beginning in July 2006, however, we began granting restricted stock units to our named executive officers. Unlike stock options, restricted stock units offer executives the opportunity to receive shares of our common stock on the date the restriction lapses.

We believe that restricted stock units are more effective than cash incentives in compensating our named executive officers because they will reward and serve to retain named executive officers during times where our stock price remains stable, as there is value to the restricted stock units upon vesting even if the market price of our common stock has not increased since the grant date. The rewards to our named executive officers are even greater if the market price of our common stock has risen, and thus our named executive officers' interests are aligned with those of our stockholders. Further, our practice of granting restricted stock units is consistent with recent trends in China. As a result, we believe it necessary to offer restricted stock units to our named executive officers as to attract and retain qualified management. Additionally, due to the substantial value restricted stock units provide our named executive officers, we are able to grant the named executive officers fewer restricted stock units than the number of stock options that would have been required to provide the same economic incentive. Finally, grants of both stock options and restricted stock units are expensed under SFAS 123R. Although each restricted stock unit grant generally results in a higher compensation expense than would an option to purchase one share of common stock at fair market value, we have sufficiently reduced the number of restricted stock units that we grant, in comparison to the number of stock options we would otherwise have granted, as to cause the overall share-based compensation expense to be lower than it would have been had we granted stock options.

All equity-based compensation is awarded pursuant to our 2000 Stock Incentive Plan and, in order to retain executive talent, is awarded once a year. Generally, our decisions to make equity-based compensation grants are independent of our cash compensation program decisions. When making any grant, we consider the grant size and the appropriate combination of stock options and restricted stock units. To do so, we make

certain assumptions about our stock price to determine the value of any proposed grant to a named executive officer.

### *Other Components of Compensation*

Our named executive officers receive various other benefits, such as housing allowances, tax equalization, tuition/training reimbursement and health, life, travel and disability insurance. We believe that these other benefits are reasonable, competitive (as it is customary for Chinese companies to provide such benefits to their named executive officers) and consistent with our overall compensation program. Further, we believe that companies within our peer group in China provide similar benefits to their named executive officers, and we believe that it is necessary to do the same for retention and recruitment purposes.

Both Dr. Zhang and Ms. Yu are provided with a tax equalization benefit under their employment agreements. Dr. Zhang and Ms. Yu only pay 15% of their individual income tax, with our company bearing the remaining tax required by law. We believe that providing this benefit to executive officers is customary in China and necessary for us to continue attracting talented individuals.

### *Severance Benefits*

Under Chinese law, we must pay severance to all employees who are Chinese nationals and who are terminated without cause or terminate their employment with us for good reason, or whose employment agreement expires and we do not continue their employment. The severance benefits required to be paid under Chinese law equals the average monthly compensation paid to the terminated employee (including any bonuses or other payments made

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in the twelve months prior to the employee's termination) multiplied by the number of years the employee has been employed with us, plus an additional month's salary if thirty days' prior notice of such termination is given. However, if the average monthly compensation to be received by the terminated employee exceeds three times the average monthly salary of the employee's local area as determined and published by the local government, such average monthly compensation shall be capped at three times the average monthly salary of the employee's local area. However, we believe that it is important, for recruiting and retention, to provide certain of our named executive officers with severance benefits beyond those required by Chinese law to help minimize the financial stress in the event of job loss. As a result, we provide additional severance pay and benefit continuation to certain of our named executive officers to help bridge the time until they secure new employment.

With respect to Dr. Zhang and Ms. Wang, in addition to the severance benefits he or she would be entitled to receive under Chinese law upon a termination without cause or a resignation for good reason, or if we do not continue his or her employment upon expiration of the employment agreement, we are also obligated to pay him or her the monthly housing allowance multiplied by the number of years he or she has been employed with us, the continuation of his or her insurance benefits for the lesser of (i) six months and (ii) the remainder of the term of his or her employment agreement (the severance period), and his or her monthly salary during the severance period. Dr. Zhang and Ms. Wang would also be entitled to receive a payment of the bonus for the remainder of the year in which he or she was terminated to the extent that the bonus would have been earned had his or her employment continued through the end of such year.

Ms. Yu is not entitled to the severance benefits afforded under Chinese law because she is not a Chinese national. Rather, she is entitled to severance benefits based on her employment agreement with us. With respect to Ms. Yu, if we terminate her without cause or she terminates her employment with us for good reason, we are obligated to pay her (1) her monthly base salary in effect on the date of termination during the severance period, (2) her monthly housing allowance during the severance period and (3) the continuation of her insurance benefits during the severance period. She would also be entitled to receive a payment of the bonus for the remainder of the year in which she was terminated to the extent that the bonus would have been earned had Ms. Yu's employment continued through the end of such year.

Dr. Gong resigned as our Chief Operating Officer effective January 2009. Dr. Gong served as a consultant to us on strategic and major customer matters through February 2009 and received payment (including base salary, housing allowance and insurance from January 11 to February 28, 2009) in the amount of \$31,934.75 (including medical, travel and life insurance in March). In connection with Dr. Gong's separation, he agreed not to compete with us until March 2010. The non-competition provisions in the letter agreement replaced the non-competition provisions of Dr. Gong's June 2007 employee non-competition, non-solicitation, confidential information and work product agreement with us, but all other provisions of that agreement remain in effect. Dr. Gong's existing health benefits and life insurance continued through March 31, 2009. Options held by Dr. Gong to purchase 2,813 shares of our common stock continued to vest through April 15, 2009 in accordance with the applicable vesting schedules and these options, and all vested options he holds that have vested, are exercisable by him until June 30, 2009. Restricted stock units held by Dr. Gong that would otherwise have been settleable upon vesting on February 28, 2009 by our issuance to Dr. Gong of 6,250 shares of our common stock will instead not vest until July 31, 2009 and will be subject to forfeiture in the event of Dr. Gong's non-compliance

with any provision of the letter agreement or his employee non-competition, non-solicitation, confidential information and work product agreement.

### Compensation for Independent Directors in 2008

Non-management directors' compensation is guided by the following goals: compensation should fairly pay directors for work required in a company of our size and scope; compensation should align directors' interests with the long-term interest of stockholders; and the structure of the compensation should be simple, transparent and easy for stockholders to understand. The compensation of non-management directors in 2008 is described in the narrative following the Director Compensation Table below.

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### COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis for the year ended December 31, 2008 with management. Based on the review and discussion with management, the Compensation Committee recommended to our Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted,

### COMPENSATION COMMITTEE

Dr. Edward B. Roberts  
Dr. Dave Qi

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### SUMMARY COMPENSATION TABLE

The following table sets forth the compensation information during the fiscal years ended December 31, 2008, 2007 and 2006 for our Chief Executive Officer, Chief Financial Officer and our two other most highly compensated executive officers as of December 31, 2008. All of these individuals are collectively referred to as the named executive officers.

The amounts shown in the Option Awards and Stock Awards columns do not reflect compensation actually received by the named executive officers. Instead the amounts shown include the compensation cost recognized under SFAS 123R in respect of awards granted in 2008 and in prior years. For more information on SFAS 123R, refer to footnote (2) below.

Summary Compensation Table(1)

| Name and Principal Position                          | Year | Salary<br>(\$) | Option<br>Awards<br>\$(2) | Stock<br>Awards<br>\$(2) | Non-Equity<br>Incentive Plan<br>Compensation<br>\$(3) | All Other<br>Compensation<br>\$(4) | Total<br>(\$) |
|--|------|----------------|---------------------------|--------------------------|---|------------------------------------|---------------|
| Charles Zhang  | 2008 | \$280,000      | \$ 34,101                 | \$233,629                | \$199,185   | \$247,207                          | \$ 994,122    |
| Chairman of the Board and<br>Chief Executive Officer | 2007 | \$250,000      | \$ 68,030                 | \$336,427                | \$134,269   | \$230,926                          | \$1,019,652   |
| Carol Yu   | 2008 | \$250,000      | \$ 84,461                 | \$169,202                | \$250,000   | \$ 73,645                          | \$ 827,308    |
| Co-President and Chief<br>Financial Officer          | 2007 | \$230,000      | \$280,030                 | \$246,258                | \$157,333   | \$148,606                          | \$1,062,227   |
| Xin (Belinda) Wang                                   | 2008 | \$170,000      | \$ 27,506                 | \$204,388                | \$129,668   | \$ 41,528                          | \$ 573,090    |
| Co-President and Chief                               | 2007 | \$150,000      | \$ 61,627                 | \$298,717                | \$110,370   | \$ 34,229                          | \$ 654,943    |

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| Name and Principal Position | Year         | Salary<br>(\$)           | Option<br>Awards<br>(\$)(2) | Stock<br>Awards<br>(\$)(2) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$)(3) | All Other<br>Compensation<br>(\$)(4) | Total<br>(\$)            |
|-----------------------------|--------------|--------------------------|-----------------------------|----------------------------|---|--------------------------------------|--------------------------|
| Marketing Officer           | 2006         | \$ 120,000               | \$ 117,637                  | \$ 30,047                  | \$ 70,308   | \$ 56,386                            | \$ 394,378               |
| Yu Gong                     | 2008         | \$ 170,000               | \$ 37,948                   | \$ 21,838(6)               | \$ 85,000(5)  | \$ 41,731                            | \$ 356,517               |
| Chief Operating<br>Officer  | 2007<br>2006 | \$ 150,000<br>\$ 120,000 | \$ 108,895<br>\$ 221,189    | \$ 289,067<br>\$ 24,038    | \$ 89,843<br>\$ 70,308                                  | \$ 34,229<br>\$ 20,000               | \$ 672,034<br>\$ 455,535 |

- (1) All 2008 annual cash bonuses paid to our named executive officers are reflected in the non-equity incentive plan compensation column of this table and were earned pursuant to our 2008 Executive Bonus Plan.
- (2) Amounts shown represent the compensation cost for financial reporting purposes of option awards and stock awards recognized as expense for the years ended December 31, 2008, 2007 and 2006 under SFAS 123R, rather than an amount paid to or realized by the named executive officer. For 2008, the amount represents expense recognized with respect to stock options and restricted stock units, as applicable, granted from January 1, 2002 through December 31, 2008, in accordance with SFAS 123R. For awards granted in 2008, see the Grants of Plan-Based Awards Table below. See Note 19, Shareholders' Equity in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for the relevant assumptions we used to determine the valuation of our stock and option awards in 2008.
- (3) All compensation earned in 2008 under our 2008 Executive Bonus Plan was paid on April 20, 2009.
- (4) The table below shows the components of this column for 2008, which include housing allowances, tax equalization and premiums paid for health, life and disability insurance.
- (5) Dr. Gong will be entitled to receive a 2008 bonus in accordance with the 2008 senior management bonus plan after the Board approves the bonuses for our executive officers. The evaluation process will commence August 1, 2009. The bonus amount shown above is the target bonus.
- (6) Includes 6,250 restricted stock units which will vest on July 31, 2009 if Dr. Gong complies with all of the provisions of the letter agreement and his employee non-competition, non-solicitation, confidential information and work product agreement..

| Name               | Housing<br>Allowances | Tax<br>Equalization | Health,<br>Life, Travel<br>and Disability<br>Insurance | Total      |
|--------------------|-----------------------|---------------------|--|------------|
| Charles Zhang      | \$ 60,000             | \$ 173,698          | \$ 13,509  | \$ 247,207 |
| Carol Yu           | \$ 60,000             | \$                  | \$ 13,645  | \$ 73,645  |
| Xin (Belinda) Wang | \$ 25,000             |                     | \$ 10,846  | \$ 35,846  |
| Yu Gong            | \$ 25,000             |                     | \$ 11,050  | \$ 36,050  |

**GRANTS OF PLAN-BASED AWARDS**

The following table sets forth a summary of all grants of plan-based awards including estimated payouts under our 2008 Executive Bonus Plan, made to our named executive officers during the fiscal year ended December 31, 2008.

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Estimated Payouts Under Non-Equity  
Incentive Plan Awards(1)

| Name               | Grant Date | Threshold (\$) | Target (\$) | Maximum (\$) | All Other Stock Awards: Number of Shares of Stock or Units (#)(2) | Grant Date Fair Value of Stock and Options Awards |
|--------------------|------------|----------------|-------------|--------------|---|---|
| Charles Zhang      |            | \$0            | \$ 132,160  | \$ 293,160   |   |   |
|                    | N/A        |                |             |              |   | \$  |
| Carol Yu           |            | \$0            | \$ 118,875  | \$ 264,188   |   |   |
|                    | N/A        |                |             |              |   | \$  |
| Xin (Belinda) Wang |            | \$0            | \$ 79,050   | \$ 174,675   |   |   |
|                    | N/A        |                |             |              |   | \$  |
| Yu Gong            |            | \$0            | \$ 80,240   | \$ 177,990   |   |   |
|                    | N/A        |                |             |              |   | \$  |

- (1) The amounts shown represent the range of non-equity incentive bonus opportunities for each named executive officer under our 2008 Executive Bonus Plan. The plan is described in detail in the Compensation Discussion and Analysis above. Payment of bonuses under our 2008 Executive Bonus Plan was made on April 20, 2009, and actual payments are reflected in the Summary Compensation Table in the column titled Non-Equity Incentive Plan Compensation.
- (2) All stock awards were granted under our 2000 Stock Incentive Plan, as amended and relate to our common stock. The stock awards were granted in the form of restricted stock units. The terms of the restricted stock units are described in the section below entitled Terms of Stock Option and Restricted Stock Unit Awards Granted under our 2000 Stock Incentive Plan, as amended.

**Executive Employment Agreements**

We normally enter into three-year employment agreements with our named executive officers. Under these employment agreements, the named executive officers are generally entitled to (i) annual base salaries; (ii) annual performance-based cash bonus; and (iii) equity incentive compensation, in the form of restricted stock units, all as represented in the Summary Compensation Table for 2008. The employment agreements may also provide for the following additional benefits for the named executive officers: vacation time, sick leave, health and medical insurance, life and disability insurance, housing allowances, tuition/training reimbursement and tax equalization.

The employment agreements generally provide for continued employment until termination by either party. We may terminate any of the named executive officers' employment with or without cause at any time. However, if the termination is without cause, we must provide the named executive officer with thirty days' prior notice of termination. If we terminate without cause or a named executive officer terminates his or her employment for good reason (each as defined below under the heading Potential Payments Upon Termination or Change-in-Control), the named executive officer will be entitled to the following, except as noted below:

payments equal to the named executive officer's monthly base salary (which includes his or her housing allowance) in effect on the date of termination for the shorter of (i) six months and (ii) the remainder of the term of the named executive officer's employment agreement; and

insurance benefits for so long as we are obligated to pay severance.

Notwithstanding the provisions above with respect to our severance obligations, if, under the applicable Chinese law, any portion of the employment agreements is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion will be deemed to be modified or altered to conform to such applicable statute, rule, regulation or ordinance, or, if that is not possible, to be omitted from such agreement. As such, Chinese law will be applied if, at the time of such determination, the severance benefits provided under Chinese law is greater than that which the named executive officer would be entitled to receive under his or her employment agreement.

If in addition, if we terminate a named executive officer's employment without cause and the termination is within the one-year period following a change-in-control (as defined below under the heading "Potential Payments Upon

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Termination or Change-in-Control) of us, except as noted below, all of the named executive officer's stock options and other stock awards will become immediately exercisable.

Also, if we terminate a named executive officer's employment agreement without cause, if a named executive officer terminates his or her employment agreement for good reason or if a named executive officer dies or becomes disabled, the named executive officer will be entitled to receive the bonus to which he or she would have been entitled had he or she continued to be employed through the end of the then current year.

The employment agreements also require the named executive officers to enter into agreements providing for (i) assignment of intellectual property, (ii) confidential treatment of our proprietary information and (iii) during the term of their employment and for the following year, (a) non-solicitation of our employees, contractors, customers, suppliers and partners and (b) non-competition with us.

If a named executive officer violates the confidentiality, non-solicitation, non-competition and assignment of intellectual property agreement after the termination of his or her employment:

the named executive officer will not be entitled to any further payments from us;

any insurance or other benefits that have continued will terminate immediately; and

the named executive officer must reimburse us for any severance payments previously made by us to the named executive officer.

#### ***Terms of Restricted Stock Unit and Stock Option Awards Granted under Our 2000 Stock Incentive Plan***

All equity awards granted in 2008 were granted pursuant to our 2000 Stock Incentive Plan, as amended, and provide for the following terms, as appropriate.

#### ***Restricted Stock Units***

Under our 2000 Stock Incentive Plan, as amended, we may grant restricted stock units which represent the right to receive, upon vesting, at the discretion of our Compensation Committee, either one share of our common stock for each unit vested or an amount of cash equal to the then market value of one share of our common stock for each unit vested, in each case subject to any additional or different terms set forth in the applicable award agreement. Restricted stock units granted to date may only settle upon vesting in our common stock, and we expect that generally we will continue to grant restricted stock units that may only settle upon vesting in our common stock. With respect to restricted stock units granted to our named executive officers, 25% of the restricted stock units vest each year, beginning on the first anniversary of the grant date.

#### ***Stock Options***

We have not granted any stock options to our named executive officers since July 2005. However, granted stock options as reflected in the Outstanding Equity Awards at Fiscal Year End Table are subject to the following terms and conditions. Unless our Compensation Committee determined otherwise, 25% of the stock options vested on the first anniversary of the grant date and the remaining 75% vest ratably in three-month intervals over the next three years following the first-year anniversary, with 100% vesting occurring on the fourth anniversary of the grant date. The exercise prices of the stock options were determined based on the fair market value of a share of our common stock on the date of grant. Under our 2000 Stock Incentive Plan, the fair market value is determined as of the last business day for which the prices or quotes for our common stock are available prior to the date an option is granted and is equal to the average, on such date, of the high and low prices of our common stock on the Nasdaq Global Select Market. The stock options are only exercisable into our common stock and have a term of ten years.

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As described above under the heading Employment Agreements, if we terminate any named executive officer's employment without cause, and the termination is within the one-year period following a change-in-control, all of such named executive officer's stock options and other stock awards will become immediately exercisable.

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**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

The following table sets forth a summary of all outstanding equity awards granted by us and held by each of our named executive officers as of December 31, 2008.

| Name               | Option Awards(1)   |  |                            |                        | Stock Awards(1)   |  |
|--------------------|--|--|----------------------------|------------------------|---|--|
|                    | Number of Securities Underlying Unexercised Options Exercisable(5) (#) | Number of Securities Underlying Unexercised Options Unexercisable(5) (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock that Have not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) |
| Charles Zhang      | 10,938(2)  |  | \$ 1.18                    | 1/30/2012              | 2,000(6)  | \$ 94,680  |
|                    | 37,500(3)  |  | \$ 8.39                    | 1/9/2013               | 22,500(8)   | \$ 1,065,150   |
|                    | 9,000(4)   |  | \$34.51                    | 1/2/2014               |   |  |
|                    | 28,125   | 1,875  | \$22.86                    | 7/25/2015              |   |  |
| Carol Yu           | 0  | 2,500  | \$20.78                    | 7/25/2015              | 2,000(6)  | \$ 94,680  |
|                    |  |  | \$                         |                        | 15,750(8)   | \$ 745,605   |
| Xin (Belinda) Wang | 625  | 0  | \$ 16.84                   | 7/26/2014              | 2,500(7)  | \$ 118,350   |
|                    | 5,626  | 1,875  | \$ 17.65                   | 3/29/2015              | 18,750(8)   | \$ 887,625   |
| Yu Gong            | 313  | 0  | \$ 16.84                   | 7/26/2014              | 2,000(7)  | \$ 94,680  |
|                    | 34,438   | 2,813  | \$ 17.65                   | 3/29/2015              | 18,750(8)   | \$ 887,625   |

(1) Options and restricted stock unit awards were granted under our 2000 Stock Incentive Plan, as amended, and relate to our common stock.

(2) These options became fully vested on January 31, 2006.

(3) These options became fully vested on January 10, 2007.

(4) These options were granted to Dr. Zhang in consideration of his services as our director and they became fully vested on January 2, 2005.

(5) 25% of the initial option grant vests on the first anniversary of the grant date and 6.25% of the options vests quarterly thereafter. The grant date of each option is listed on the table below by reference to the expiration date set forth in the above table.

| Grant Date | Expiration Date |
|------------|-----------------|
| 1/31/2002  | 1/30/2012       |
| 1/10/2003  | 1/9/2013        |
| 1/2/2004   | 1/2/2014        |
| 3/30/2005  | 3/29/2015       |
| 7/26/2005  | 7/25/2015       |



- (6) 25% of the restricted stock units vest each year beginning on the first anniversary of July 25, 2006, the grant date.
- (7) 25% of the restricted stock units vest each year beginning on the first anniversary of July 9, 2006, the grant date.
- (8) 25% of the restricted stock units vest each year beginning on the first anniversary of February 28, 2007, the grant date.

**OPTION EXERCISES AND STOCK VESTED**

The following table summarizes the value realized by our named executive officers in connection with the exercise of stock options and the vesting of restricted stock units during the fiscal year ended December 31, 2008.

| Name               | Option Awards                             |                                 | Stock Awards(1)                          |                                |
|--------------------|---|---------------------------------|--|--------------------------------|
|                    | Number of Shares Acquired On Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| Charles Zhang      | 0   | \$ 0                            | 8,500                                    | \$ 427,550                     |
| Carol Yu           | 217,500                                   | \$ 10,873,013                   | 6,250                                    | \$ 324,140                     |
| Xin (Belinda) Wang | 31,874                                    | \$ 2,058,686                    | 7,500                                    | \$ 375,375                     |
| Yu Gong            | 33,999                                    | \$ 1,580,759                    | 7,250                                    | \$ 357,750                     |

(1) Reflects shares received pursuant restricted stock units granted under our 2000 Stock Incentive Plan.

**PENSION BENEFITS**

We do not have any plans that provide for payments or other benefits at, following, or in connection with retirement nor do we have any defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.

**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE-IN-CONTROL**

*Severance Benefits and Change-in-Control Arrangements*

As discussed in the narrative description following the Grants of Plan-Based Awards Table, we have entered into employment agreements with each of our named executive officers. These agreements, along with Chinese law requirements which are discussed in the Compensation Discussion and Analysis under the heading Severance Benefits, provide for certain payments and other benefits if a named executive officer's employment with us is terminated under circumstances specified in his or her respective agreement, including a change-in-control of us. Chinese law requirements also provide for certain payments and benefits if an employment agreement is not renewed. A named executive officer's rights upon the termination of his or her employment will depend upon the circumstances of the termination. Central to an understanding of the rights of each named executive officer under the employment agreements is an understanding of the definitions of cause, change-in-control, good reason and disability that are used in those agreements. For purposes of the employment agreements such terms have the following meanings:

cause means:

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willful misconduct or gross negligence by the named executive officer, or any willful or grossly negligent omission to perform any act, resulting in injury to us;

misconduct or negligence of the named executive officer that results in gain or personal enrichment of the named executive officer to our detriment;

breach of any of the named executive officer's agreements with us, including, but not limited to, the repeated failure to perform substantially the named executive officer's duties to us, excessive absenteeism or dishonesty;

any attempt by the named executive officer to assign or delegate his or her employment agreement or any of the rights, duties, responsibilities, privileges or obligations thereunder without our prior consent (except in respect of any delegation by the named executive officer of his employment duties thereunder to our other employees in accordance with our usual business practice);

the named executive officer's indictment or conviction for, or confession of, a felony or any crime involving moral turpitude under the laws of the U.S. or any State thereof, or under the laws of China or Hong Kong;

declaration by a court that the named executive officer is insane or incompetent to manage his or her business affairs;

habitual drug or alcohol abuse which materially impairs the named executive officer's ability to perform his or her duties; or

filing of any petition or other proceeding seeking to find the named executive officer bankrupt or insolvent.

change-in-control means the occurrence of any of the following events:

any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Securities Exchange Act of 1934) other than us, any trustee or other fiduciary holding securities under an employee benefit plan of Sohu or any corporation owned, directly or indirectly, by our stockholders in substantially the same proportion as their ownership of our common stock, becomes the direct or beneficial owner of securities representing 50% or more of the combined voting power of our then-outstanding securities;

during any period of two consecutive years after the date of the named executive officer's employment agreement, individuals who at the beginning of such period constitute our Board, and all new directors (other than directors designated by a person who has entered into an agreement with us to effect a transaction

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described in the first, third and fourth bullet point of this definition) whose election or nomination to our Board was approved by a vote of at least two-thirds of the directors then in office, cease for any reason to constitute at least a majority of the members of our Board;

the effective date of a merger or consolidation of us with any other entity, other than a merger or consolidation which would result in our voting securities outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;

our complete liquidation or the sale or disposition by us of all or substantially all of our assets; or

there occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Securities and Exchange Act of 1934, whether or not we are then subject to such reporting requirements.

disability means the named executive officer becomes physically or mentally impaired to an extent which renders him or her unable to perform the essential functions of his or her job, with or without reasonable accommodation, for a period of six consecutive months, or an aggregate of

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nine months in any two year period.

good reason means the occurrence of any of the following events without the named executive officer's express written consent, provided that the named executive officer has given notice to us of such event and we have not remedied the problem within fifteen days:

any significant change in the duties and responsibilities of the named executive officer inconsistent in any material and adverse respect with the named executive officer's title and position (including status, officer positions and reporting requirements), authority, duties or responsibilities as contemplated by the named executive officer's employment agreement.

any material breach by us of the employment agreement with the named executive officer, including without limitation any reduction of the named executive officer's base salary or our failure to pay to the named executive officer any portion of his or her compensation; or

the failure, in the event of a change-in-control in which we are not the surviving entity, of the surviving entity or the successor to our business to assume the named executive officer's employment agreement pursuant to its terms or to offer the named executive officer employment on substantially equivalent terms to those set forth in such employment agreement.

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**Potential Payments**

The table that follows summarizes the estimated potential post-employment compensation that would have been payable to our named executive officers if the named executive officers' employment was terminated as described in the table below on December 31, 2008. Such amounts do not reflect any actual payments to be received by the named executive officers. In addition, for purposes of the calculations, we have assumed that the fair market value of our common stock is \$47.34, the closing price of our common stock as quoted on the Nasdaq Global Select Market on December 31, 2008, the last trading day of the 2008 fiscal year.

| Name          | Compensation Element  | Voluntary Resignation for Good Reason | Death or Disability | Involuntary Termination |            | Change in Control                     |                  |            |
|---------------|---|---------------------------------------|---------------------|-------------------------|------------|---------------------------------------|------------------|------------|
|               |   |                                       |                     | Without Cause           | For Cause  | Voluntary Resignation for Good Reason | Without Cause    | For Cause  |
| Charles Zhang | Severance Pay (1)   | \$ 258,051(2)                         | \$0                 | \$258,051(2)            | \$0        | \$258,051(2)                          | \$258,051(2)     | \$0        |
|               | Housing Allowance (1)   | \$ 60,000                             | \$0                 | \$ 60,000               | \$0        | \$ 60,000                             | \$ 60,000        | \$0        |
|               | Bonus   | \$ 0(3)                               | \$0(4)              | \$ 0(3)                 | \$0        | \$ 0(3)                               | \$ 0(3)          | \$0        |
|               | Benefits  | \$ 6,754                              | \$0                 | \$ 6,754                | \$0        | \$ 6,754                              | \$ 6,754         | \$0        |
|               | Accelerated Vesting of Stock Options and Restricted Stock Unit Awards | \$ 0                                  | \$0                 | \$ 0                    | \$0        | \$ 0                                  | \$196,544        | \$0        |
| <b>Total</b>  |   | <b>\$ 324,805</b>                     | <b>\$0</b>          | <b>\$324,805</b>        | <b>\$0</b> | <b>\$324,805</b>                      | <b>\$521,349</b> | <b>\$0</b> |
| Carol Yu      |   | \$ 125,000                            | \$0                 | \$125,000               | \$0        | \$125,000                             | \$125,000        | \$0        |

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|                           |   |                   |            | <u>Involuntary<br/>Termination</u> |            | <u>Change in Control</u> |                   |            |
|---------------------------|---|-------------------|------------|------------------------------------|------------|--------------------------|-------------------|------------|
|                           | Severance Pay (1)   |                   |            |                                    |            |                          |                   |            |
|                           | Housing Allowance(1)  | \$ 30,000         | \$0        | \$ 30,000                          | \$0        | \$ 30,000                | \$ 30,000         | \$0        |
|                           | Bonus   | \$ 0(3)           | \$0(4)     | \$ 0(3)                            | \$0        | \$ 0(3)                  | \$ 0(3)           | \$0        |
|                           | Benefits  | \$ 6,823          | \$0        | \$ 6,823                           | \$0        | \$ 6,823                 | \$ 6,823          | \$0        |
|                           | Accelerated Vesting of Stock Options and Restricted Stock Unit Awards | \$ 0              | \$0        | \$ 0                               | \$0        | \$ 0                     | \$148,988         | \$0        |
| <b>Total</b>              |   | <b>\$ 161,823</b> | <b>\$0</b> | <b>\$ 161,823</b>                  | <b>\$0</b> | <b>\$ 161,823</b>        | <b>\$ 310,811</b> | <b>\$0</b> |
| <b>Xin (Belinda) Wang</b> | Severance Pay (1)   | \$ 121,801(2)     | \$0        | \$ 121,801(2)                      | \$0        | \$ 121,801(2)            | \$ 121,801(2)     | \$0        |
|                           | Housing Allowance(1)  | \$ 19,792         | \$0        | \$ 19,792                          | \$0        | \$ 19,792                | \$ 19,792         | \$0        |
|                           | Bonus   | \$ 0(3)           | \$0(4)     | \$ 0(3)                            | \$0        | \$ 0(3)                  | \$ 0(3)           | \$0        |
|                           | Benefits  | \$ 8,264          | \$0        | \$ 8,264                           | \$0        | \$ 8,264                 | \$ 8,264          | \$0        |
|                           | Accelerated Vesting of Stock Options and Restricted Stock Unit Awards | \$ 0              | \$0        | \$ 0                               | \$0        | \$ 0                     | \$165,191         | \$0        |
| <b>Total</b>              |   | <b>\$ 149,857</b> | <b>\$0</b> | <b>\$ 149,857</b>                  | <b>\$0</b> | <b>\$ 149,857</b>        | <b>\$ 315,048</b> | <b>\$0</b> |

- (1) Severance payments are made ratably over the severance period according our standard payroll practices.
- (2) Both Dr. Zhang and Ms. Wang would have been entitled to the severance benefits under Chinese law as these benefits would have been greater than their severance benefits under their employment agreement with us.
- (3) In the event of a voluntary resignation for good reason or an involuntary termination without cause, our named executive officers are each entitled to receive payments of the bonus for the remainder of the year of the termination, but only to the extent that the bonus would have been earned had the named executive officers continued in employment through the end of such year, as determined in good faith by our Chief Executive Officer, Board or our Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses were paid for such fiscal year to other similarly situated employees. The payment of the entire 2008 bonus rests on the assumption that each of the named executive officers voluntarily resigned for

good reason and/or was terminated without cause as of December 31, 2008 and that no additional bonus would have been due as a result of the termination.

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In the event of a termination of named executive officer's employment by reason of death or disability, they or their estates or representatives, as applicable, are entitled to receive the bonus for the year in which the death or disability occurs to the extent that a bonus would have been earned had named executive officers continued in employment through the end of such year, as determined in good faith by our Chief Executive Officer, Board or our Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses are paid for such fiscal year to other similarly situated employees. The payment of the entire 2008 bonus rests on the assumption that each of the named executive officers voluntarily resigned for good reason and/or was terminated without cause as of December 31, 2008 and that no additional bonus would have been due as a result of the termination.

### DIRECTOR COMPENSATION

#### *DIRECTOR COMPENSATION(1)*

The following table summarizes the compensation paid to our directors during the 2008 fiscal year.

| Name              | Option Awards<br>\$(2)(3) | Stock Awards<br>\$(2)(4) | Total<br>(\$) |
|-------------------|---------------------------|--------------------------|---------------|
| Dave Qi           |                           | \$96,943                 | \$96,943      |
| Shi Wang          |                           | \$96,943                 | \$96,943      |
| Edward B. Roberts |                           | \$96,943                 | \$96,943      |
| Charles Huang     |                           | \$96,943                 | \$96,943      |
| Zhonghan Deng     |                           | \$96,407                 | \$96,407      |

- (1) Dr. Zhang has been omitted from this table because he receives no compensation for serving on our Board. All compensation paid to Dr. Zhang in fiscal year 2008 was paid to him in his capacity as Chief Executive Officer and is reported in the Summary Compensation Table.
- (2) Amounts shown represents expense recognized with respect to restricted stock units and stock options, as applicable, granted from January 1, 2002 through December 31, 2008, in accordance with SFAS 123R. See Note 19, Shareholders' Equity in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for the relevant assumptions we used to determine the valuation of our stock and option awards.
- (3) As of December 31, 2008, each of our non-employee directors had the following number of outstanding stock options: Dave Qi: 10,000; Shi Wang: 10,000; Edward B. Roberts: 24,000; Charles Huang: 49,000; and Zhonghan Deng: 0.
- (4) The grant date fair value of the 2008 restricted stock units granted to each of Dave Qi, Shi Wang, Edward B. Roberts, Charles Huang and Zhonghan Deng, computed in accordance with SFAS 123R, was \$96,407.

#### *Compensation*

In 2008, we compensated non-employee members of our Board with equity-based compensation. Directors who are our employees do not receive any compensation for their service as a member of our Board or any committee. In addition, non-employee members of our Board were reimbursed for reasonable travel expenses incurred in connection with attending Board and committee meetings.

#### *Equity Compensation*

On January 2, 2008, Drs. Dave Qi, Edward B. Roberts and Zhonghan Deng and Messrs. Shi Wang and Charles Huang were each granted 1,802 restricted stock units. 50% of these restricted stock units vested on July 1, 2008 and the remaining 50% vested on December 31, 2008.

In addition, effective as of the first business day of each calendar year, each non-employee director will be granted such number of restricted stock units as is equal to \$100,000 divided by the average of the daily closing prices of shares of our common stock on the Nasdaq Global Select Market for the month of December of the immediately preceding year as reported by the Nasdaq Global Select Market, with 50% of the

restricted stock units vesting on July 1 and the remaining 50% vesting on December 31 of the grant year.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal year 2008, none of the members of our Compensation Committee was our current or former officer or employee.

No member of our Compensation Committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K under the Exchange Act. No member of our Compensation Committee during 2008 was an officer of Sohu or any of our subsidiaries.

None of our executive officers has served as a director or member of the compensation committee (or other committee serving an equivalent function) of any other organization whose executive officer served as a member of our Board or Compensation Committee.

### Proposal II. Ratification of Appointment of Independent Auditors

The Audit Committee of our Board of Directors has selected PricewaterhouseCoopers as our independent auditors for the fiscal year ending December 31, 2009. PricewaterhouseCoopers has served as our independent auditors since 2000. Representatives of PricewaterhouseCoopers will be present at the Annual Meeting, will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions. Stockholder ratification of our independent auditors is not required under Delaware law or under our Sixth Restated Certificate of Incorporation or our Amended and Restated By-Laws. If our stockholders do not ratify the selection of PricewaterhouseCoopers as our independent auditors for the current fiscal year ending December 31, 2009, our Audit Committee will evaluate what would be in our best interests and our stockholders and consider whether to select new independent auditors for the current fiscal year or for future fiscal years. Unless otherwise instructed on the proxy, properly executed proxies will be voted in favor of ratifying the appointment of PricewaterhouseCoopers to audit our books and accounts for the fiscal year ending December 31, 2009.

## PRINCIPAL ACCOUNTANT FEES, SERVICES AND PRE-APPROVAL PROCESS

### *Audit fees*

The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for (1) the audit of our annual financial statements for the fiscal year ended December 31, 2008, including the reviews of the financial statements included in our Quarterly Reports on Form 10-Q, assistance with Securities Act filings and the audit of management's assertion as to the effectiveness of internal control over financial reporting required under Item 308 of Regulation S-K; (2) the audit and review of our game business and advisory work relating to the initial public offering, were \$2,680,000.

The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for the audit of our annual financial statements for the fiscal year ended December 31, 2007, including the reviews of the financial statements included in our Quarterly Reports on Form 10-Q, assistance with Securities Act filings and the audit of management's assertion as to the effectiveness of internal control over financial reporting required under Item 308 of Regulation S-K, were \$1,337,000.

### *Tax Fees*

The aggregate fees billed by PricewaterhouseCoopers for professional services rendered for U.S. and China tax compliance, tax advice, and tax planning were \$418,000 for the fiscal year ended December 31, 2008 and \$172,000 for the fiscal year ended December 31, 2007. Such services for fiscal 2008 and 2007 mainly consisted of tax planning advisory services, related to our income tax in the U.S. and China.

### *All Other Fees*

The aggregate fees billed by PricewaterhouseCoopers for other services related to the subscription of PricewaterhouseCoopers' accounting database were \$1,500 for the fiscal year ended December 31, 2008 and 2007.

***Pre-Approval Process***

Our Audit Committee will consider annually for pre-approval a list of specific services and categories of services, including audit and audit-related, tax and other services, for the upcoming or current fiscal year to be provided by the independent auditors. Thereafter, our Audit Committee's policy is to pre-approve all such services as it deems advisable. Any service that is not included in the approved list of services or that does not fit within the definition of a pre-approved service is required to be presented separately to our Audit Committee for consideration at our next regular meeting or, if necessary, by other means of communication. In 2008 and 2007, our Audit Committee pre-approved all services provided by PricewaterhouseCoopers.

**OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS AS INDEPENDENT AUDITORS.**

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**Miscellaneous**

**Code of Ethics**

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. A copy of the code of ethics is filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and can be found on our website at [www.sohu.com](http://www.sohu.com). In addition, copies of our code of ethics may be obtained free of charge by writing to Erin Sheng, Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.

**Other Matters**

Our Board is not aware of any matter, other than those described above, that may come before the Annual Meeting. However, if any matters are properly presented to the meeting for action, it is intended that the persons named in the enclosed proxy will vote on such matters in accordance with their best judgment.

**Communications with Directors**

Our Board has not established a formal process for stockholders to send communications to our Board and individual directors. However, the names of all directors are available to stockholders in this Proxy Statement. If we receive any stockholder communication intended for the full Board or any individual director, we will forward the communication to the full Board or the individual director, unless the communication is clearly of a marketing nature or is unduly hostile, threatening, illegal, or similarly inappropriate, in which case we have the authority to discard the communication or take appropriate legal action regarding the communication.

**Deadline for Receipt of Stockholder Proposals**

In order for a stockholder proposal to be considered for inclusion in our proxy materials for the 2010 Annual Meeting of Stockholders, it must be received by us at Sohu.com Inc., Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China, Attention: Helen Zhang, no later than December 31, 2009. Proposals of stockholders intended to be considered at the 2010 Annual Meeting of Stockholders, but not included in our proxy materials for that meeting, must be received by us at the above address no less than 60 days nor more than 90 days prior to that 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, the proposal must be received not more than ten days after the date of the meeting is first announced or disclosed.

By order of our Board of Directors

People's Republic of China  
April 30, 2009

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( Please sign, date and return this proxy in the enclosed postage prepaid envelope.)

|   | <b>FOR</b> all nominees<br>listed below | <b>WITHHOLD<br/>AUTHORITY</b><br>to vote for all<br>nominees<br>listed below | <b>*EXCEPTIONS</b> |
|---|---|--|--------------------|
| 1. Election of two directors to serve for a two-year term or until their earlier death, resignation or removal; | O                                       | O  | O                  |
| Nominees:   |   |  |                    |
| 01 Dr. Charles Zhang  |   |  |                    |
| 02 Mr. Charles Huang  |   |  |                    |
| 03 Dr. Dave Qi  |   |  |                    |
| 04 Mr. Shi Wang   |   |  |                    |

(INSTRUCTIONS: To withhold authority to vote for any individual nominee, mark the “Exceptions” box and write that nominee’s name in the space provided below.)

\*Exceptions \_\_\_\_\_

Please mark your votes as indicated in this example

|  | <b>FOR</b> | <b>AGAINST</b> | <b>ABSTAIN</b> |
|--|------------|----------------|----------------|
| 2. To ratify the appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as our independent auditors for the fiscal year ending December 31, 2009; and | O          | O              | O              |
| 3.   |            |                |                |



To consider and act upon all other matters which may properly come before the Annual Meeting or any adjournment or postponement thereof.

Mark Here for Address  
Change or Comments  
**SEE REVERSE**

O

Signature

Signature

Date

Note: Please sign as your name(s) is (are) shown on the certificates to which the Proxy applies. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership or limited liability company, please sign in partnership or limited liability company name by authorized person.

5 FOLD AND DETACH HERE 5

**WE ENCOURAGE YOU TO TAKE ADVANTAGE OF INTERNET OR TELEPHONE VOTING,  
BOTH ARE AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.**

Internet and telephone voting are available through 11:59 PM Eastern Time  
the day prior to annual meeting day.

**SOHU.COM INC.**

**INTERNET**

<http://www.eproxy.com/sohu>

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

**OR**

**TELEPHONE**

**1-866-580-9477**

Use any touch-tone telephone to vote your proxy.  
Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

**Important notice regarding the Internet availability of proxy materials for the Annual Meeting of shareholders**  
The Proxy Statement and the 2008 Annual Report to

Stockholders are available at:  
<http://bnymellon.mobular.net/bnymellon/sohu>

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**SOHU.COM  
INC.**

**LEVEL 12,  
SOHU.COM  
INTERNET PLAZA  
NO. 1 UNIT  
ZHONGGUANCUN  
EAST ROAD,  
HAIDIAN DISTRICT  
BEIJING 100084,  
PEOPLE S  
REPUBLIC OF  
CHINA**

**Proxy for the  
Annual Meeting of  
Stockholders  
June 19, 2009**

**THIS PROXY IS  
SOLICITED ON  
BEHALF OF THE  
BOARD OF  
DIRECTORS**

The person or entity signed on the reverse side of this proxy card hereby appoints Dr. Charles Zhang and Ms. Carol Yu and each of them, as proxy or proxies for such person or entity, with full power of substitution, who may act by unanimous vote of said proxies or their substitutes as shall be present at the meeting, or, if only one be present, then the one shall have all the powers hereunder, to represent and to vote, as designated on the other side (if no direction is made, this Proxy will be voted FOR Proposals I and II), all of the shares of common stock, par

value \$0.001 per share, of Sohu.com Inc. standing in the name of such person or entity on April 17, 2009 at the Annual Meeting of Stockholders of Sohu.com Inc. to be held on Friday, June 19, 2009 at 10:00 a.m., Beijing time, and any adjournment thereof. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

**(Continued, and to be marked, dated and signed, on the other side.)**

BNY MELLON SHAREOWNER SERVICES  
P.O. BOX 3550  
SOUTH HACKENSACK, NJ 07606-9250

**Address Change/Comments**  
**(Mark the corresponding box on the reverse side)**

**5 FOLD AND DETACH HERE 5**

***You can now access your BNY Mellon Shareowner Services account online.***

Access your BNY Mellon Shareowner Services shareholder/stockholder account online via Investor ServiceDirect® (ISD).

The transfer agent for Sohu.com Inc. now makes it easy and convenient to get current information on your shareholder account.

- View account status
- View certificate history
- View book-entry information
- View payment history for dividends
- Make address changes
- Obtain a duplicate 1099 tax form
- Establish/change your PIN

***Visit us on the web at <http://www.bnymellon.com/shareowner/isd>***  
***For Technical Assistance Call 1-877-978-7778 between 9am-7pm***  
***Monday-Friday Eastern Time***  
***\*\*\*\*TRY IT OUT\*\*\*\****

[www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd)

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Choose **MLink**<sup>SM</sup> for fast, easy and secure 24/7 online access to your future proxy materials, investment plan statements, tax documents and more. Simply log on to **Investor ServiceDirect**<sup>®</sup> at [www.bnymellon.com/shareowner/isd](http://www.bnymellon.com/shareowner/isd) where step-by-step instructions will prompt you through enrollment.

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