

Edgar Filing: SINA COM - Form 10-Q

SINA COM
Form 10-Q
February 09, 2001

1

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2000

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-30698

SINA.COM
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CAYMAN ISLANDS
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

52-2236363
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

VICWOOD PLAZA
ROOMS 1801-4
18TH FLOOR
199 DES VOEUX ROAD
CENTRAL, HONG KONG
(852) 2155-8800
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING
AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

CHARLES CHAO
1313 GENEVA DRIVE
SUNNYVALE, CA 94089
(408) 548-0000
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

Edgar Filing: SINA COM - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No []

The number of shares outstanding of the registrant's ordinary shares as of January 31, 2001 was 41,265,207.

2

SINA.COM

INDEX

PART I. FINANCIAL INFORMATION

- Item 1. Condensed Consolidated Financial Statements (unaudited)
- Condensed Consolidated Balance Sheet at December 31, 2000 and June 30, 2000
- Condensed Consolidated Statement of Operations for the three and six months ended December 31, 2000 and 1999
- Condensed Consolidated Statement of Cash Flows for the six months ended December 31, 2000 and 1999
- Notes to Condensed Consolidated Financial Statements
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosure About Market Risk

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 2. Changes in Securities and Use of Proceeds
- Item 3. Defaults Upon Senior Securities
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other Information
- Item 6. Exhibits and Reports on Form 8-K

SIGNATURES

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

SINA.COM

CONDENSED CONSOLIDATED BALANCE SHEET
(IN U.S. DOLLARS)
(UNAUDITED, IN THOUSANDS)

| | DECEMBER 31, 2000 | JUNE 30, 2000 |
|---|----------------------|------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 71,029 | \$ 99,149 |
| Short-term investments | 51,125 | 30,484 |
| Accounts receivable, net | 6,543 | 3,921 |
| Inventories | -- | 156 |
| Prepaid expenses and other current assets | 1,326 | 1,378 |
| | ----- | ----- |
| Total current assets | 130,023 | 135,088 |
| Property and equipment, net | 9,721 | 7,737 |
| Intangible assets, net | 8,438 | 11,828 |
| Investment in joint venture | -- | 894 |
| Receivable from related parties | 859 | 268 |
| Other assets | 191 | 223 |
| | ----- | ----- |
| | \$ 149,232 | \$ 156,038 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,886 | \$ 1,203 |
| Accrued liabilities | 13,942 | 8,018 |
| | ----- | ----- |
| Total current liabilities | 15,828 | 9,221 |
| | ----- | ----- |
| Commitments and contingencies (Note 5) | | |
| Shareholders' equity: | | |
| Ordinary shares | 5,489 | 5,425 |
| Additional paid-in capital | 221,747 | 221,399 |
| Notes receivables from shareholders | (2,029) | (2,067) |
| Deferred stock compensation | (9,751) | (15,057) |
| Accumulated deficit | (82,072) | (62,950) |
| Accumulated other comprehensive income: | | |
| Cumulative translation adjustment | 20 | 67 |
| | ----- | ----- |
| Total shareholders' equity | 133,404 | 146,817 |
| | ----- | ----- |
| | \$ 149,232 | \$ 156,038 |

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

3

4

SINA.COM

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(IN U.S. DOLLARS)
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | THREE MONTHS ENDED | |
|--|----------------------|----------------------|
| | DECEMBER 31, 2000 | DECEMBER 31, 1999 |
| Net revenues: | | |
| Advertising | \$ 6,691 | \$ 2,106 |
| Software products | 681 | 811 |
| E-commerce | 250 | 43 |
| | 7,622 | 2,960 |
| Cost of revenues: | | |
| Advertising (a) | 3,714 | 1,866 |
| Software products (a) | 279 | 503 |
| E-commerce | 141 | 49 |
| Stock-based compensation | 110 | 148 |
| | 4,244 | 2,566 |
| Gross profit | 3,378 | 394 |
| Operating expenses: | | |
| Sales and marketing (a) | 5,797 | 4,367 |
| Product development (a) | 2,540 | 1,615 |
| General and administrative (a) | 2,063 | 1,653 |
| Stock-based compensation | 1,722 | 3,368 |
| Amortization of intangible assets | 1,688 | 1,702 |
| Total operating expenses | 13,810 | 12,705 |
| Loss from operations | (10,432) | (12,311) |
| Interest income, net | 2,001 | 826 |
| Loss before loss on equity investment and minority Interest | (8,431) | (11,485) |

Edgar Filing: SINA COM - Form 10-Q

| | | |
|---|------------|-------------|
| Minority interest | -- | 71 |
| Loss on equity investment | (444) | -- |
| | ----- | ----- |
| Net loss | (8,875) | (11,414) |
| Accretion on mandatorily redeemable convertible preference shares | -- | (27) |
| | ----- | ----- |
| Net loss attributable to ordinary shareholders | \$ (8,875) | \$ (11,441) |
| | ===== | ===== |
| | | |
| Basic and diluted net loss per share attributable to ordinary shareholders | \$ (0.22) | \$ (1.54) |
| | ===== | ===== |
| | | |
| Shares used in computing basic and diluted net loss per share | 40,123 | 7,425 |
| | ===== | ===== |

(a) Exclude stock-based compensation.

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

4

5

SINA.COM

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(IN U.S. DOLLARS)
(UNAUDITED, IN THOUSANDS)

| | SIX MONTHS ENDED | |
|--|------------------|--------------|
| | DECEMBER 31, | DECEMBER 31, |
| | 2000 | 1999 |
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss attributable to ordinary shareholders | \$(19,123) | -- |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Minority interests | -- | 894 |
| Loss on equity investment | 894 | 1,496 |
| Depreciation and amortization | 1,496 | 4,422 |
| Stock-based compensation | 4,422 | 3,390 |
| Amortization of intangible assets | 3,390 | -- |
| Accretion on mandatorily redeemable convertible preference shares | -- | -- |
| Changes in assets and liabilities, | | |

Edgar Filing: SINA COM - Form 10-Q

| | |
|--|-----------|
| Accounts receivable, net | (2,622) |
| Inventories | 156 |
| Prepaid expenses and other current assets | 52 |
| Other assets | (559) |
| Accounts payable | 683 |
| Accrued liabilities | 5,878 |
| | ----- |
| Net cash used in operating activities | (5,333) |
| | ----- |
| Cash flows from investing activities: | |
| Acquisition of property and equipment | (3,480) |
| Investment in joint venture | -- |
| Purchase of short-term investments | (20,641) |
| | ----- |
| Net cash used in investing activities | (24,121) |
| | ----- |
| Cash flows from financing activities: | |
| Proceeds from issuance of preference shares, net | -- |
| Proceeds from exercise of preference share warrant | -- |
| Proceeds from issuance of ordinary shares under ESPP | 525 |
| Proceeds from exercise of stock options | 771 |
| Proceeds from repayments of promissory notes | 38 |
| | ----- |
| Net cash provided by financing activities | 1,334 |
| | ----- |
| Net increase (decrease) in cash and cash equivalents | (28,120) |
| Cash and cash equivalents at beginning of period | 99,149 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 71,029 |
| | ===== |

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

SINA.COM

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (IN U.S. DOLLARS, UNAUDITED)

1. THE COMPANY AND BASIS OF PRESENTATION

SINA.com ("SINA" or the "Company") is a leading Internet media and services company for Chinese communities worldwide offering a full array of Chinese-language news, entertainment, e-commerce platforms, financial information, and lifestyle tips. With separate Web sites in China, Hong Kong, Taiwan and North America, SINA provides global content and services that speak directly to the audience of each region, enriching the online experience of its users.

The accompanying unaudited condensed consolidated financial statements reflect all adjustments which, in the opinion of management, are necessary to a

Edgar Filing: SINA COM - Form 10-Q

fair statement of the results for the interim periods presented. Results for the three and six months ended December 31, 2000 are not necessarily indicative of results for the entire fiscal year ending June 30, 2001 or future periods. These financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2000.

2. RECENT ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities". SFAS 133 establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities, and is effective for fiscal years beginning after June 15, 2000, as amended by SFAS No. 137. In June 2000, the Financial Accounting Standards Board issued SFAS No. 138, "Accounting for Derivatives Instruments and Hedging Activities - An Amendment of FASB Statement No. 133". SFAS No. 138 amends the accounting and reporting standards for certain derivatives and hedging activities such as net settlement contracts, foreign currency transactions and intercompany derivatives. The Company believes the adoption of this pronouncement will have no material impact on the Company's financial position or results of operations.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements," which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 ("FIN 44") "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25." FIN 44 clarifies the application of Opinion No. 25 for (a) the definition of employee for purposes of applying Opinion No. 25, (b) the criteria for determining whether a plan qualifies as noncompensatory plan, (c) the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 is effective July 1, 2000, but certain conclusions cover specific events that occur either after December 15, 1998, or January 12, 2000. The adoption of the provisions of FIN 44 did not have a material impact on the financial statements.

6

7

3. NET LOSS PER SHARE

Net loss per share is computed using the weighted average number of the ordinary shares outstanding during the period. Since the Company has a net loss for all periods presented, net loss per share on a diluted basis is equivalent to basic net loss per share because the effect of converting stock options, warrants and mandatorily redeemable convertible preference shares would be anti-dilutive. Ordinary shares that are subject to the Company's right to repurchase are excluded from the basic and diluted net loss per share calculations.

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated:

Edgar Filing: SINA COM - Form 10-Q

| (IN THOUSANDS, EXCEPT FOR PER SHARE DATA) | THREE MONTHS ENDED DECEMBER 31, | |
|--|------------------------------------|-----------|
| | 2000 | 1999 |
| | ----- | ----- |
| Net loss | \$ (8,875) | \$ (11,41 |
| Accretion of mandatorily redeemable convertible preference redemption value | -- | (2 |
| | ----- | ----- |
| Net loss attributable to ordinary shareholders | \$ (8,875) | \$ (11,44 |
| | ===== | ===== |
| Basic and diluted: | | |
| Weighted average shares used in computing basic and diluted net loss per ordinary shares | 40,123 | 7,42 |
| | ===== | ===== |
| Basic and diluted net loss per share attributable to ordinary shareholders | \$ (0.22) | \$ (1.5 |
| | ===== | ===== |
| Weighted average antidilutive securities including options, warrants, preference shares and restricted ordinary shares not included in net loss per share calculation | 5,465 | 23,99 |
| | ===== | ===== |

4. SEGMENT INFORMATION

The Company operates in two principal business segments globally. The Internet segment develops, designs and markets content and services through a network of SINA.com Web sites hosted in the U.S., China, Hong Kong and Taiwan. The Software segment develops, produces and markets software products and related services in China. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income or loss from operations before stock compensation, amortization of intangible assets, interest, nonrecurring gains and losses, foreign exchange gains and losses, and income taxes. Facilities costs are allocated to the segment's cost of revenues based on usage. Long-lived assets comprise property and equipment.

The following is a summary of operations by segment for the six months ended December 31, 2000 and 1999:

| (IN THOUSANDS) | SIX MONTHS ENDED DECEMBER 31, | | | |
|---------------------------------------|-------------------------------|----------|----------|-------|
| | 2000 | | 1999 | |
| | ----- | ----- | ----- | ----- |
| | INTERNET | SOFTWARE | INTERNET | SOFTW |
| | ----- | ----- | ----- | ----- |
| Revenues | \$ 13,385 | \$ 1,390 | \$ 3,102 | \$ 1, |
| Segment operating income (loss) | (14,557) | 139 | (12,134) | |

Edgar Filing: SINA COM - Form 10-Q

The following is a summary of total assets by segment as of December 31, 2000 and June 30, 2000:

| (IN THOUSANDS) | DECEMBER 31, 2000 | | JUNE 30, 2000 | |
|--------------------|-------------------|----------|---------------|----------|
| | INTERNET | SOFTWARE | INTERNET | SOFTWARE |
| Total assets | \$28,626 | \$ 1,975 | \$20,983 | \$ 1,975 |

7

8

Reconciliation of segment information to financial statements:

| | SIX MONTHS ENDED DECEMBER 31, | |
|---|----------------------------------|-------------|
| | 2000 | 1999 |
| LOSS FROM OPERATIONS: | | |
| Total loss for reportable segments | \$ (14,418) | \$ (12,100) |
| Unallocated amounts: | | |
| Stock-based compensation | (4,422) | (11,500) |
| Amortization of intangible assets | (3,390) | (3,400) |
| Other corporate expenses, net | -- | (500) |
| Loss from operations before interest, income taxes and minority interest | \$ (22,230) | \$ (27,900) |
| | ===== | ===== |
| | DECEMBER 31, | JUNE 30, |
| | 2000 | 2000 |
| ASSETS: | | |
| Total assets for reportable segments | \$ 30,601 | \$ 22,800 |
| Cash and short-term investments | 110,193 | 121,300 |
| Intangible assets | 8,438 | 11,800 |
| | \$149,232 | \$156,000 |
| | ===== | ===== |

5. COMMITMENTS AND CONTINGENCIES

Edgar Filing: SINA COM - Form 10-Q

There are uncertainties regarding the legal basis of the Company's ability to operate an internet business and to advertise in China. The telecommunication, information and media industries in China remain highly regulated. Although the Company believes its business in China is in compliance with existing Chinese laws and regulations, the Company cannot be sure that the Chinese regulatory authorities will view such business as in compliance with Chinese laws and regulations. Further, the Company cannot be sure that it will be in compliance with Chinese laws and regulations that may be adopted in the future. Therefore, the Company might be required to limit the scope of its operations in China, and this could have a material adverse effect on the Company's financial position and results of operations.

8

9

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

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect", "anticipate", "intend", "believe", or similar language. All forward-looking statements included in this documents are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth below under the caption "Certain Business Risks" set forth herein. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

OVERVIEW

We are a leading Internet media and services company for Chinese communities worldwide, offering a full array of Chinese-language news, entertainment, e-commerce platforms, financial information, and lifestyle tips. One of our subsidiaries, Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS, a Sino-Foreign joint venture company based in Beijing, China, began operations in December 1993 as a computer software company focused on providing solutions to computer users wishing to communicate in Chinese. In May 1996, we launched our online network, then called SRSnet.com, offering Chinese-language news, information and community features such as bulletin boards and chat services targeted at online users in China. In March 1999, we expanded our online network by acquiring Sinanet.com, a leading Chinese-language Internet content company with offices in California and Taiwan and two distinct Web sites targeting Chinese users in North America and Taiwan. In July 1999, we continued our network expansion by launching our Hong Kong destination Web site targeting Chinese users in Hong Kong. Today, we operate separate Web sites in China, Hong Kong, Taiwan, and North America to provide global content and services that speak directly to the audience of each region, enriching the online experience of their users.

We derive our revenues from several sources, including online Internet advertising, software sales, and e-commerce. Advertising revenues are derived principally from advertising arrangements under which we receive revenues on a cost-per-thousand impression basis, fixed payment sponsorship from advertisers, and design of advertising campaigns to be placed on our network. We derive our software revenues from sales of our software products primarily in China and

Edgar Filing: SINA COM - Form 10-Q

Hong Kong through our network of OEM partners, value-added resellers, distributors, retail merchants, and our direct sales force. Our e-commerce revenues are mainly derived from transaction and "slotting fees" paid by merchants for selective positioning and promoting their goods or services within our online mall, SinaMall.

Our overall revenues for the three and six months ended December 31, 2000 were \$7.6 million and \$14.8 million, respectively, which represent increases of 157.8% and 209.9% when compared with the corresponding periods in fiscal 2000. The increase in revenues was primarily driven by higher growth of our Internet advertising business.

We have incurred significant net losses and negative cash flows from operations since our inception. As of December 31, 2000, we had an accumulated deficit of \$82.1 million. These losses have been funded primarily through the issuance of our equity securities in the private and public market. We intend to continually increase our spending on marketing and brand development, content enhancements and technology and infrastructure. We anticipate net losses and negative cash flows from operations in the foreseeable future.

We recorded cumulative deferred stock compensation of approximately \$36.5 million, net through December 31, 2000, which represents the difference between the exercise price of options granted through December 31, 2000 and the fair market value of the underlying stock at the date of grant. Deferred stock compensation is amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. The amortization of deferred compensation was \$19.1 million and \$3.4 million in fiscal 2000 and 1999, respectively. We expect the amortization of deferred compensation to approximate \$7.8 million for fiscal 2001, \$4.1 million for fiscal 2002, \$1.9 million for fiscal 2003 and \$0.2 million for fiscal 2004.

On March 29, 1999, we acquired Sinanet.com. The fair value of the total consideration paid in the acquisition, including assumed liabilities of approximately \$4.3 million and acquisition costs of \$0.1 million, was \$21.7 million. The \$4.3 million in liabilities that we assumed included \$3.5 million of notes payable which were subsequently converted into our preference shares. We accounted for the acquisition as a purchase. We recorded goodwill and other intangible assets of approximately \$20.3 million as a result of this transaction, which are being amortized over a three-year period.

9

10

In April 2000, we sold 4,600,000 ordinary shares in an underwritten initial public offering, inclusive of 600,000 ordinary shares through the exercise of the underwriter's over-allotment option for net proceeds of approximately \$72.7 million, before offering expenses.

RESULTS OF OPERATIONS

THREE AND SIX MONTHS ENDED DECEMBER 31, 2000 AND 1999

REVENUES

Advertising. We generated \$6.7 million and \$13.0 million in advertising revenues for the three and six months ended December 31, 2000, respectively, which represent increases of 217.7% and 327.9% when compared with the corresponding periods in fiscal 2000. The increases were primarily due to the increase in number of advertisers and amount of advertising contracts. For the three and six months ended December 31, 2000, advertising revenues accounted for

Edgar Filing: SINA COM - Form 10-Q

87.8% and 87.7% of our total revenues, respectively. For the three and six months ended December 31, 1999, advertising revenues accounted for 71.1% and 63.5% of our total revenues, respectively.

Software. Our software revenues were \$0.7 million and \$1.4 million for the three and six months ended December 31, 2000, respectively, which represent decreases of 16.0% and 16.6% when compared with the corresponding periods in fiscal 2000. The decreases were mainly due to the fact that, as part our strategy to draw increased traffic to our portal networks, we began to provide more free downloads of some of our software products on our Web sites. We expect our revenues from software sales to remain relatively flat or to decrease in the future.

E-commerce. Our e-commerce revenues were \$0.3 million and \$0.4 million for the three and six months ended December 31, 2000, respectively, as compared to \$43,000 and \$74,000 for the same periods in fiscal 2000, respectively. The increases in e-commerce revenues were primarily due to the increased e-commerce activities in SinaMall on our North America and China sites

COST OF REVENUES

Advertising. Our cost of advertising revenues was increased by 99.0% and 124.0% from \$1.9 million and \$3.3 million for the three and six months ended December 31, 1999, respectively, to \$3.7 million and \$7.3 million for the three and six months ended December 31, 2000, respectively. Our cost of advertising revenues consists of costs associated with the production of our Web site. These costs primarily consist of fees paid to third parties for Internet connection, content and services, and compensation related costs and equipment depreciation expense associated with our Web site production. Compared to the same periods in the prior year, the increase in cost of advertising revenues to support our rapidly growing internet user traffic was primarily due to an increase in Internet connection costs, such as bandwidth expansion and server co-location cost to support increased Internet traffic on our Web sites, and an increase in content and service provider fees to expand our Web site contents and to support the increased advertisement impressions.

Software. Our cost of software revenues decreased by 44.5% and 46.4% from \$0.5 million and \$1.0 million for the three and six months ended December 31, 1999, respectively, to \$0.3 million and \$0.6 million for the three and six months ended December 31, 2000, respectively. The decreases were primarily due to decreased software revenues as well as a higher percentage of the software revenues attributable to licensing arrangements which involved minimal costs.

E-commerce. Our cost of e-commerce increased by 187.8% and 228.0% from \$49,000 and \$82,000 for the three and six months ended December 31, 1999, respectively, to \$141,000 and \$269,000 for the three and six months ended December 31, 2000. The increase in cost of e-commerce was primarily due to an increase in compensation related costs associated with personnel working directly in e-commerce activities.

SALES AND MARKETING EXPENSES

Our sales and marketing expenses as a percentage of net sales decreased from 147.5% and 143.8% for the three and six months ended December 31, 1999, respectively, to 76.1% and 81.4% for the three and six months ended December 31, 2000. In absolute dollars, our sales and marketing expenses increased from \$4.4 million and \$6.9 million for the three and six months ended December 31, 1999, respectively, to \$5.8 million and \$12.0 million for the three and six months ended December 31, 2000, respectively. Sales and marketing expenses consist primarily of compensation expenses, sales commissions, advertising and promotion expenditures and

travel expenses. The absolute dollar increase was mainly attributable to an increase in advertising costs associated with our brand-building strategy, an increase in compensation expense associated with the growth in our direct sales force and marketing personnel, and an increase in sales commissions associated with the increased revenues.

PRODUCT DEVELOPMENT EXPENSES

Our product development expenses as a percentage of net sales decreased from 54.6% and 62.4% for the three and six months ended December 31, 1999, respectively, to 33.3% and 33.9% for the three and six months ended December 31, 2000, respectively. In absolute dollars, our product development expenses increased from \$1.6 million and \$3.0 million for the three and six months ended December 31, 1999, respectively, to \$2.5 million and \$5.0 million for the three and six months ended December 31, 2000, respectively. Product development expenses consist primarily of payroll and related expenses incurred for enhancement to and maintenance of our Web sites as well as engineering costs related to develop our software products. The absolute dollar increase was attributable to increased staffing and associated support for engineers for developing and enhancing our online network.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses as a percentage of net sales decreased from 55.8% and 69.3% for the three and six months ended December 31, 1999, respectively, to 27.1% and 27.2% for the three and six months ended December 31, 2000, respectively. In absolute dollars, our general and administrative expenses increased from \$1.7 million and \$3.3 million for the three and six months ended December 31, 1999, respectively, to \$2.1 million and \$4.0 million for the three and six months ended December 31, 2000, respectively. The absolute dollar increase was mainly due to the increase in general business activities as a result of business expansion and building our administrative infrastructure.

STOCK-BASED COMPENSATION EXPENSE

In connection with the grant of certain stock options, we recorded net unearned compensation of approximately \$37.1 million, net through December 31, 2000, which is being amortized on an accelerated basis over the vesting period of the applicable options, which is generally four years. Of the total unearned compensation, approximately \$1.8 million and \$4.4 million was amortized in the three and six months ended December 31, 2000, respectively, as compared to \$3.5 million and \$11.8 million in the three and six months ended December 31, 1999, respectively.

AMORTIZATION OF INTANGIBLE ASSETS

As a result of the acquisition of Sinanet.com in March 1999, we recorded goodwill and other intangible assets of approximately \$20.3 million, which are being amortized over three years. The amortization expense was \$1.7 million and \$3.4 million for the three and six months, respectively, ended December 31, 2000 and 1999.

INTEREST INCOME (EXPENSE), NET

Interest income, net increased from \$0.8 million and \$1.1 million for the three and six months ended December 31, 1999, respectively, to \$2.0 million

Edgar Filing: SINA COM - Form 10-Q

and \$4.0 million for the three and six months ended December 31, 2000, respectively. The increases in interest income was primarily due to higher cash and short-term investment balances as a result of the proceeds from our sale of Series C preference shares in October and November 1999 and the initial public offering in April 2000.

LOSS ON EQUITY INVESTMENT

In December 1999, we contributed \$1.4 million in cash for a 35.4% interest in a joint venture with Adforce, Inc. and Compuserve Consultants, Ltd. We account for our investment in the joint venture using the equity method of accounting. We recorded \$0.4 million and \$0.9 million losses from our investment in the joint venture during the three and six months ended December 31, 2000, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations principally through private sales of our preference shares and the initial public offering. From inception through December 31, 2000, we have raised net proceeds of \$97.5 million through the sale of preference shares and \$68.8

11

12

million from the sale of ordinary shares in the initial public offering. As of December 31, 2000, we had \$122.2 million in cash and cash equivalents and short-term investments.

Net cash used in operating activities was \$5.4 million for the six months ended December 31, 2000 and was primarily attributable to our net loss of \$19.1 million and an increase in accounts receivable of \$2.6 million, largely offset by the non-cash stock-based compensation expense of \$4.4 million, an increase in accrued liability of \$5.9 million and amortization expense of \$3.4 million related to goodwill and other intangible assets resulting from the acquisition of Sinanet.com. Net cash used in operating activities was \$11.7 million for the six months ended December 31, 1999 and was primarily attributable to our net loss of \$26.8 million offset by non-cash stock-based compensation of \$11.8 million and amortization expense of \$3.4 million related to goodwill and other intangible assets.

Net cash used in investing activities was \$24.1 million for the six months ended December 31, 2000, primarily due to the purchase of short-term investments of \$20.6 million and the purchase of capital equipment of \$3.5 million. Net cash used in investing activities was \$6.4 million for the six months ended December 31, 1999, primarily due to the purchase of short-term investments of \$3.1 million, the purchase of capital equipment of \$1.9 million and investment in a joint venture of \$1.4 million.

Net cash provided by financing activities was \$1.3 million for the six months ended December 31, 2000, primarily related to the proceeds from the exercise of stock options of \$0.8 million and issuance of Ordinary Shares of \$0.5 million pursuant to Employee Stock Purchase Plan. Net cash provided by financing activities was \$64.6 million for the six months ended December 31, 1999, primarily related to the proceeds from issuance of preference share of \$63.8 million and the proceeds from repayment of promissory notes and from exercise of stock options.

Our principal commitments consist of obligations outstanding under

Edgar Filing: SINA COM - Form 10-Q

various operating leases for our facilities. We have experienced an increase in our capital expenditures and operating lease arrangements, consistent with the growth in our operations and staffing. We anticipate that this will continue for the foreseeable future.

We expect to experience continuing growth in our operating expenses, particularly in sales and marketing expenses, for the foreseeable future. We anticipate operating expenses and purchases of equipment will constitute the majority of the future use of our cash resources. In addition, we may use our cash resources to acquire or make investments in complementary products, technologies or businesses. We believe that our existing cash, cash equivalents and short-term investments will be sufficient to fund our operating activities, capital expenditures and other obligations for at least the next twelve months. However, we may sell additional equities or obtain credit facilities to enhance our liquidity position. The sale of additional equity will result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

RISK FACTORS

Because our operating history is limited and the revenue and income potential of our business and markets are unproven, we cannot predict whether we will meet internal or external expectations of future performance.

From our inception through September 1998, our revenues consisted entirely of sales of our RichWin software products and licenses to copy and use these products. We continued our software sales during fiscal 1999, but with the launch of our online network in May 1996 and our acquisition of Sinanet.com in March 1999, we began to devote our resources primarily to developing our online Chinese-language network. We believe that our future success depends on our ability to significantly increase revenue from our Internet advertising and electronic commerce operations, for which we have a limited operating history. Accordingly, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in an early stage of development. These risks include our ability to: attract advertisers; attract a larger audience to our network; respond effectively to competitive pressures and address the effects of strategic relationships or corporate combinations among our competitors; maintain our current, and develop new, strategic relationships; increase awareness of the SINA.com brand and continue to build user loyalty; attract and retain qualified management and employees; upgrade our technology to support increased traffic and expanded services; and expand the content and services on our network.

We derive the majority of our revenues from the sale of advertisements under short-term contracts, which are difficult to forecast accurately.

Most of our revenues are currently derived from advertising agreements or sponsorship arrangements. These agreements generally have terms no longer than two years and, in many cases, the terms are much shorter. Some of our advertisers are Internet companies

which, in certain cases, may lack financial resources to fulfill their commitments. Accordingly, it is difficult to accurately forecast these revenues. However, our expense levels are based in part on expectations of future revenues and are fixed over the short term with respect to certain categories. We may be

Edgar Filing: SINA COM - Form 10-Q

unable to adjust spending quickly enough to compensate for any unexpected revenue shortfall. Accordingly, the cancellation or deferral of advertising or sponsorship contracts could have a material adverse effect on our financial results. Because our operating expenses are likely to increase over the near term, to the extent that our expenses increase but our revenues do not, our business, operating results, and financial condition may be materially and adversely affected.

We have a history of losses and we anticipate future losses.

We have never been profitable. As of December 31, 2000, we had an accumulated deficit of approximately \$82.1 million. We anticipate that we will continue to incur operating losses for the foreseeable future due to increased sales and marketing costs, additional personnel hires and our continuing branding campaign. As a result, we cannot be certain when or if we will achieve profitability. If we do not achieve or sustain profitability, the market price of our ordinary shares may decline.

We are relying on advertising sales as a significant part of our future revenue, but the Internet has not been proven as a source of significant advertising revenue in Greater China.

Our revenue growth is dependent on increased revenue from the sale of advertising space on our network and the acceptance and use of electronic commerce. Online advertising in Greater China is an unproven business and many of our current and potential advertisers have limited experience with the Internet as an advertising medium, have not traditionally devoted a significant portion of their advertising expenditures or other available funds to Web-based advertising, and may not find the Internet to be effective for promoting their products and services relative to traditional print and broadcast media. Our ability to generate and maintain significant advertising revenue will therefore depend on a number of factors, many of which are beyond our control, including: the development of a large base of users possessing demographic characteristics attractive to advertisers; downward pressure on online advertising prices; the development of independent and reliable means of verifying levels of online advertising and traffic; and the effectiveness of our advertising delivery, tracking and reporting systems.

If the Internet does not become more widely accepted as a medium for advertising, our ability to generate increased revenue will be negatively affected.

We are relying on electronic commerce as a significant part of our future revenue, but the Internet has not yet been proven as an effective commerce medium in Greater China.

Our revenue growth depends on the increasing acceptance and use of electronic commerce in Greater China. The Internet may not become a viable commercial marketplace in Asia for various reasons, many of which are beyond our control, including: inexperience with the Internet as a sales and distribution channel; inadequate development of the necessary infrastructure to facilitate electronic commerce; concerns about security, reliability, cost, ease of deployment, administration and quality of service associated with conducting business over the Internet; and inexperience with credit card usage or with other means of electronic payment in China.

If the Internet does not become more widely accepted as a medium for electronic commerce, our ability to generate increased revenue will be negatively affected.

Underdeveloped telecommunications infrastructure has limited and may continue to

Edgar Filing: SINA COM - Form 10-Q

limit the growth of the Internet market in China which, in turn, could limit our ability to grow our business.

The telecommunications infrastructure in China is not well developed. Although private sector ISPs exist in China, almost all access to the Internet is accomplished through ChinaNet, China's primary commercial network, which is owned and operated by China Telecom, a state-owned enterprise directly controlled by China's Ministry of Information Industry. The underdeveloped Internet infrastructure in China has limited the growth of Internet usage in China. If the necessary Internet infrastructure is not developed, or is not developed on a timely basis, future growth of the Internet in China will be limited and our business could be harmed.

13

14

We must rely on the Chinese government to develop China's Internet infrastructure and if it does not develop this infrastructure our ability to grow our business will be hindered.

The Chinese government's interconnecting, national networks connect to the Internet through government-owned international gateways, which are the only channels through which a domestic Chinese user can connect to the international Internet network. We rely on this backbone and China Telecom to provide data communications capacity primarily through local telecommunications lines. Although the Chinese government has announced plans to develop aggressively the national information infrastructure, we cannot assure you that this infrastructure will be developed. In addition, we have no guarantee that we will have access to alternative networks and services in the event of any disruption or failure. If the necessary infrastructure standards or protocols or complementary products, services or facilities are not developed by the Chinese government, the growth of our business will be hindered.

You should not rely on our quarterly operating results as an indication of our future performance because our results of operations are subject to significant fluctuations.

We may experience significant fluctuations in our quarterly operating results due to a variety of factors, many of which are outside our control. Factors that may cause our quarterly operating results to fluctuate include: our ability to retain existing users, attract new users at a steady rate and maintain user satisfaction; the announcement or introduction of new or enhanced services, content and products by us or our competitors; dependence on a limited number of advertisers, the majority of which have agreements with us that are cancelable upon a specified notice period, and the loss of any major advertiser; significant news events that increase traffic to our Web sites; technical difficulties, system downtime or Internet failures; demand for advertising space from advertisers; the amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure; governmental regulation; seasonal trends in Internet use; a shortfall in our revenues relative to our forecasts and a decline in our operating results due to our inability to adjust our spending quickly; and general economic conditions and economic conditions specific to the Internet, electronic commerce and the Greater China market.

As a result of these and other factors, you should not rely on quarter-to-quarter comparisons of our operating results as indicators of likely future performance. Our operating results may be below the expectations of public market analysts and investors in one or more future quarters. If that occurs, the price of our ordinary shares could decline and you could lose part

Edgar Filing: SINA COM - Form 10-Q

or all of your investment.

Political and economic conditions in Greater China are unpredictable and may disrupt our operations if these conditions become unfavorable to our business.

We derive a substantial percentage of our revenues from the Greater China market. Changes in political or economic conditions in the region are difficult to predict and could adversely affect our operations or cause the Greater China market to become less attractive to advertisers, which could reduce our revenues. We maintain a strong local identity and presence in each of the regions in the Greater China market and we cannot be sure that we would be able to maintain effectively this local identity if political conditions were to change. Furthermore, many countries in Asia have experienced significant economic downturns since the middle of 1997, resulting in slower real gross domestic product growth for the entire region as a result of higher interest rates and currency fluctuations. If declining economic growth rates persist, expenditures for Internet access, infrastructure improvements and advertising could decrease, which would negatively affect our business and our profitability over time. In addition, the economic downturn in Asia could also lead to a devaluation of the currency of China, Taiwan or Hong Kong, which would decrease our revenues for the Greater China region in U.S. dollar terms.

In addition, economic reforms in the region could affect our business in ways that are difficult to predict. For example, since the late 1970s, the Chinese government has been reforming the Chinese economic system to emphasize enterprise autonomy and the utilization of market mechanisms. Although we believe that these reforms measures have had a positive effect on the economic development in China, we cannot be sure that they will be effective or that they will benefit our business.

We may be adversely affected by Chinese government regulation of Internet companies.

China has begun to regulate its Internet sector by making pronouncements or enacting regulations regarding the legality of foreign investment in the Chinese Internet sector, the existence and enforcement of content restrictions on the Internet and the availability of securities offerings by companies operating in the Chinese Internet sector. In the opinion of our Chinese counsel, the ownership of BSRS and its businesses comply with existing Chinese laws and regulations. There are, however, substantial uncertainties regarding the proper interpretation of current and future Chinese Internet laws and regulations.

Issues, risks and uncertainties relating to China government regulation of the Chinese Internet sector include the following:

14

15

A prohibition of foreign investment in businesses providing value-added telecommunication services, including computer information services or electronic mail box services, may be applied to Internet businesses such as ours. Some officials of the Chinese Ministry of Information, or MII, have taken the position that foreign investment in the Internet sector is prohibited.

The MII has also stated recently that it intends to adopt new laws or regulations governing foreign investment in the Chinese Internet sector in the near future. If these new laws or regulations forbid foreign investment in the Internet sector, our business will be severely impaired.

In October 2000, the United States granted China permanent, normal trade

Edgar Filing: SINA COM - Form 10-Q

status facilitating China's ability to enter into the World Trade Organization, or WTO. If China does join the WTO, foreign investment in Chinese Internet services may be liberalized to allow for 49% foreign ownership in key telecommunication services, including Chinese Internet ventures, for the first two years after China's entry into the WTO and 50% thereafter.

In September 2000, the Chinese government issued a regulation concerning the licensing requirements of Internet companies and the forms of content acceptable on a Web site regulated by the Chinese government. In November 2000, the Chinese government issued additional regulations requiring Chinese Internet sites to use news from state-controlled media subject to certain limited exceptions. In November 2000, the Chinese government also promulgated regulations governing the use of chat room and bulletin-board systems requiring Chinese Internet companies to obtain approval for each category of chat room, banning certain content from chat rooms and holding Internet companies potentially liable for prohibited information that may appear in chat rooms.

The interpretation and application of existing Chinese laws and regulations, the stated positions of the MII and the possible new laws or regulations have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, Chinese Internet businesses, including our business.

Accordingly, it is possible that the relevant Chinese authorities could, at any time, assert that any portion or all of our existing or future ownership structure and businesses, or this offering, violates existing or future Chinese laws and regulations. It is also possible that the new laws or regulations governing the Chinese Internet sector that may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our current or proposed businesses and operations or require governmental approvals for this offering. In addition, these new laws and regulations may be retroactively applied to us.

If we are found to be in violation of any existing or future Chinese laws or regulations, the relevant Chinese authorities would have broad discretion in dealing with such a violation, including, without limitation, the following: levying fines; revoking our business license; requiring us to restructure our ownership structure or operations; and requiring us to discontinue any portion or all of our Internet business. Any of these actions could cause our business to suffer and the price of our ordinary share to decline.

We have attempted to comply with the strict licensing and registration requirements of the PRC government by entering into agreements with two Chinese entities majority owned by our employees; if the PRC government finds that these agreements do not comply with the licensing requirements, our business in the PRC will be adversely affected.

Because the Chinese government restricts foreign investment in Internet-related businesses, we have restructured our China Internet operations by forming two Chinese entities to acquire appropriate government licenses to conduct our business there. The legal uncertainties associated with the Chinese government regulation may be summarized as follows: whether the Chinese government may view our restructuring as being in compliance with their regulations; whether the Chinese government may revoke such business licenses; whether the Chinese government may impose additional regulatory requirements with which we may not be in compliance; whether the Chinese government will permit the Chinese entities to acquire future licenses necessary in order to conduct operations in China; and whether the Chinese government will restrict or prohibit the distribution of content over the Internet.

The Chinese government regulates Internet access and the distribution of

Edgar Filing: SINA COM - Form 10-Q

news and other information through strict business licensing and registration requirements and other governmental regulation. With respect to licensing, our subsidiary Beijing Stone Rich Sight Information Technology Co. Ltd., or BSRS, is currently licensed to operate as a software company. BSRS has entered into agreements with two Chinese entities: Beijing SINA Interactive Advertising Co., Ltd., a Chinese advertising company that is 75% owned by Yan Wang, our general manager of China operation, and 25% owned by BSRS, and which we refer to as the Ad Company, and Beijing SINA Internet Information Services Co., Ltd., a Chinese Internet content provider that is 70% owned by Zhidong Wang, our president and chief executive officer and 30% owned by Yan Wang and which we refer to as the ICP Company.

15

16

Pursuant to these agreements, the ICP Company is responsible for operating www.sina.com.cn in connection with its Internet content company license and will sell advertising space on www.sina.com.cn to the Ad Company. The Ad Company, in turn, will sell advertisements in this space to third parties under its advertising license. In addition, BSRS has licensed intellectual property and transferred equipment to the ICP Company, and acts as the ICP Company's provider of technical services, all in exchange for fees or other payments. BSRS will also be a consultant and service provider to the Ad Company for its domestic Chinese customers.

We cannot be sure that these and other corporate activities carried out by us will be viewed by Chinese regulatory authorities as in compliance with applicable licensing requirements. Our business in China will be adversely affected if our business license is revoked as a result of non-compliance. In addition, we cannot be sure that we will be able to obtain all of the licenses we may need in the future or that future changes in Chinese government policies affecting the provision of information services, including the provision of online services and Internet access, will not impose additional regulatory requirements on us or our service providers or otherwise harm our business.

We depend upon contractual arrangements with the Ad Company and the ICP Company for the success of our operations in China and these arrangements may not be as effective in providing operational control as direct ownership of these businesses.

Because we are restricted by the Chinese government from providing Internet and advertising services directly in China, we are dependent on the Ad Company, of which we own 25%, and the ICP Company, of which we have no ownership interest, to provide such services through contractual agreements between the parties. This arrangement may not be as effective in providing control over advertising and Internet content operations in China as direct ownership of these businesses. For example, the Ad Company or ICP Company could fail to take actions required for our business, such as entering into advertising contracts with potential customers or failing to maintain our China Web site. The ICP Company will also be able to transact business with third parties not affiliated with BSRS. If the Ad Company or ICP fails to perform its obligations under these agreements, we would potentially have to rely on legal remedies under Chinese law, which we cannot be sure would be effective.

The ICP Company is controlled by Zhidong Wang, our president and chief executive officer. As a result, our contractual relationships with the ICP Company would be viewed as entrenching his management position or transferring certain value to him, especially if any conflict arose with him.

Edgar Filing: SINA COM - Form 10-Q

We may not be in compliance with Chinese government regulations relating to foreign investment prohibitions and, if so determined, the Chinese government could cause us to discontinue our operations in China.

Chinese government policy prohibits foreign investment in the telecommunications services industry, which he has defined to include Internet-related businesses. While we believe that we are in compliance with current Chinese government policies, we cannot be sure that the government will view our business as in compliance with these policies or any policies that may be made in the future. If we are not viewed as complying with these policies or any regulations that may be created relating to foreign ownership of Internet-related businesses, the Chinese government could require us to discontinue our operations in China or take other actions that could harm our business.

Even if we are in compliance with Chinese governmental regulations relating to licensing and foreign investment prohibitions, the Chinese government may prevent us from distributing, and we may be subject to liability for, content that it believes is inappropriate.

China has enacted regulations governing Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet that it believes to violate Chinese law, including content that is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may not publish certain news items, such as news relating to national security, without permission from the Chinese government. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any Web site maintained outside China at its sole discretion. Even if we comply with Chinese governmental regulations relating to licensing and foreign investment prohibitions, if the Chinese government were to take any action to limit or prohibit the distribution of information through our network or to limit or regulate any current or future content or services available to users on our network, our business would be harmed.

In November 2000, the Chinese government also promulgated regulations governing the use of chat room and bulletin-board systems requiring Chinese Internet companies to obtain approval for each category of chat room, banning certain content from chat rooms and holding Internet companies potentially liable for prohibited information that may appear in chat rooms. We have not

16

17

obtained all the requisite approvals set forth in these regulations and thus cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected by the application of these regulations.

We are also subject to potential liability for content on our Web sites that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems under regulations promulgated by the Chinese Ministry of Information and Industry. Furthermore, we are required to delete content that clearly violates the laws of China and report content that we suspect may violate Chinese law. It is difficult to determine the type of content that may result in liability for us, and if we are wrong, we may be prevented from operating our Web sites.

We may have to register our encryption software with Chinese regulatory authorities, and if they request that we change our encryption software, our

Edgar Filing: SINA COM - Form 10-Q

business operations will be disrupted as we develop or license replacement software.

Pursuant to the Regulations for the Administration of Commercial Encryption promulgated at the end of 1999, foreign and domestic Chinese companies operating in China are required to register and disclose to Chinese regulatory authorities the commercial encryption products they use. Because these regulations have just recently been adopted and because they do not specify what constitutes encryption products, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register, or apply for permits with the relevant Chinese regulatory authorities for, our current or future encryption software. If Chinese regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which could disrupt our business operations.

The markets in which we operate are highly competitive, and we may be unable to compete successfully against new entrants and established industry competitors, many of which have greater financial resources than we do or currently enjoy a superior market position than we do.

The Asian market for Internet content and services is competitive and rapidly changing. Barriers to entry are minimal, and current and new competitors can launch new Web sites at a relatively low cost. Many companies offer Chinese language content and services, including informational and community features, and email and electronic commerce services in the Greater China market that may be competitive with our future offerings. We also face competition from providers of software and other Internet products and services that incorporate search and retrieval features into their offerings. In addition, entities that sponsor or maintain high-traffic Web sites or that provide an initial point of entry for Internet users, such as ISPs, including large, well-capitalized entities such as Microsoft (MSN), Yahoo!, Cable & Wireless HKT (Netvigator) and AOL, currently offer and could further develop or acquire content and services that compete with those that we offer. We expect that as Internet usage in Greater China increases and the Greater China market becomes more attractive to advertisers and for conducting electronic commerce, large global competitors may increasingly focus their resources on the Greater China market. We also compete for advertisers with traditional media companies, such as newspapers, television networks and radio stations, that have a longer history of use and greater acceptance among advertisers. In addition, providers of Chinese language Internet tools and services may be acquired by, receive investments from or enter into other commercial relationships with large, well-established and well-financed Internet, media or other companies. For example, America Online Inc. and Xinhua News Agency, one of our content suppliers, are major shareholders of Chinadotcom, Intel Corporation is a major shareholder of Sohu.com, and News Corp Ltd. is a major shareholder of Netease.com.

A number of our current and potential future competitors have greater name recognition, larger customer bases and greater financial and other resources than we have, and may be able to more quickly react to changing consumer requirements and demands, deliver competitive services at lower prices and more effectively respond to new Internet technologies or technical standards.

Increased competition could result in reduced page views, loss of market share and lower profit margins from reduced pricing for Internet-based services.

If we fail to develop successfully and introduce new products and services, our competitive position and ability to generate revenues will be harmed.

We are developing new products and services. The planned timing or introduction of new products and services is subject to risks and uncertainties.

Edgar Filing: SINA COM - Form 10-Q

Actual timing may differ materially from original plans. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of our new products or services. Moreover, we cannot be sure that any of our new products and services will achieve widespread market acceptance or generate incremental revenue.

17

18

We have contracted with third parties to provide content and services for our portal network and to distribute our software, and we may lose users and revenue if these arrangements are terminated.

We have arrangements with a number of third parties to provide content and services to our Web sites and to distribute our software. In the area of content, we have relied and will continue to rely almost exclusively on third parties for content that we publish under the SINA brand. Although no single third party content provider is critical to our operations, if these parties fail to develop and maintain high-quality and successful media properties, or if a large number of our existing relationships are terminated, we could lose users and advertisers and our brand could be harmed.

In the area of Web-based services, we have contracted with AltaVista and OpenFind for integrated Web search technology to complement our directory and navigational guide, and with Critical Path for our email services and third-party providers for our principal Internet connections. If we experience significant interruptions or delays in service, or if these agreements terminate or expire, we may incur additional costs to develop or secure replacement services and our relationship with our users could be harmed.

We depend on a third party's proprietary and licensed advertising serving technology to deliver advertisements to our network. If the third party fails to continue to support its technology or if its services fail to meet the advertising needs of our customers and we cannot find an alternative solution on a timely basis, our advertising revenue would decline.

In order to create traffic for our online properties and make them more attractive to advertisers and consumers, we have entered into distribution agreements and informal relationships with ISPs and personal computer manufacturers for the distribution of our software. These distribution arrangements typically are non-exclusive, and may be terminated upon little or no notice. If our software distributors were to terminate or modify their distribution arrangements, our ability to promote our network and generate revenue could be harmed.

Our business and growth will suffer if we are unable to hire and retain key personnel that are in high demand.

We depend upon the continued contributions of our senior management and other key personnel, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key employees could harm our business. We have experienced changes to our executive management team. On January 31, 2001, Victor Lee resigned as our Chief Financial Officer. We also had two chief financial officers resign in 1999. Following our acquisition of Sinanet.com, James Sha served as our chief executive officer from March 1999 to August 1999. Mr. Sha resigned as chief executive officer on August 31, 1999 and resigned as a member of our Board of Directors on September 26, 1999. In August 1999, Zhidong Wang, who has served as our president since October 1997, was promoted to the position of chief executive officer. Our future success will also depend on our ability to attract and retain highly skilled technical,

Edgar Filing: SINA COM - Form 10-Q

managerial, editorial, marketing and customer service personnel, especially qualified personnel for our international operations in Greater China. In particular, we have experienced difficulty in hiring and retaining qualified personnel for our Hong Kong office and may experience similar problems in our other regional offices. Qualified individuals are in high demand, and we may not be able to successfully attract, assimilate or retain the personnel we need to succeed.

We may not be able to manage our expanding operations effectively, which could harm our business.

We anticipate significant expansion of our business as we address growth in our customer base and market opportunities. In addition, the geographic dispersion of our operations requires significant management resources that our locally-based competitors do not need to devote to their operations. In order to manage the expected growth of our operations and personnel, we will be required to improve existing and implement new operational and financial systems, procedures and controls, and to expand, train and manage our growing employee base. Further, our management will be required to maintain and expand our relationships with various other Web sites, Internet and other online service providers and other third parties necessary to our business. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations.

Concerns about the security of electronic commerce transactions and confidentiality of information on the Internet may reduce use of our network and impede our growth.

A significant barrier to electronic commerce and communications over the Internet in general has been public concern over security and privacy, especially the transmission of confidential information. If these concerns are not adequately addressed, they may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions. If a well-publicized Internet breach of security were to occur, general Internet usage could decline, which could reduce traffic to our destination sites and impede our growth.

18

19

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenues in U.S. dollar terms.

We generate revenues and incur expenses and liabilities in Chinese renminbi, Taiwan dollars, Hong Kong dollars, and U.S. dollars. In the future, we may also conduct business in additional foreign countries and generate revenues and incur expenses and liabilities in other foreign currencies. As a result, we are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the renminbi depends to a large extent on China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of renminbi to U.S. dollars has generally been stable and the renminbi has appreciated slightly against the U.S. dollar. However, given recent economic instability and currency fluctuations in Asia, we can offer no assurance that the renminbi will continue to remain stable against the U.S. dollar or any other foreign currency. Our results of operations and financial condition may be affected by changes in the value of renminbi and other currencies in which our earnings and obligations are denominated. We have

Edgar Filing: SINA COM - Form 10-Q

not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future.

Although Chinese governmental policies were introduced in 1996 to allow the convertibility of renminbi into foreign currency for current account items, conversion of renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration of Foreign Exchange, or SAFE, which is under the authority of the People's Bank of China. These approvals, however, do not guarantee the availability of foreign currency. We cannot be sure that we will be able to obtain all required conversion approvals for our operations or that Chinese regulatory authorities will not impose greater restrictions on the convertibility of the renminbi in the future. Because a significant amount of our future revenues may be in the form of renminbi, our inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to utilize revenue generated in renminbi to fund our business activities outside China.

Our operations could be disrupted by unexpected network interruptions caused by system failures, natural disasters or unauthorized tamperings with our systems.

The continual accessibility of our Web sites and the performance and reliability of our network infrastructure are critical to our reputation and our ability to attract and retain users, advertisers and merchants. Any system failure or performance inadequacy that causes interruptions in the availability of our services or increases the response time of our services could reduce our appeal to advertisers and consumers. Factors that could significantly disrupt our operations include: system failures and outages caused by fire, floods, earthquakes, power loss, telecommunications failures and similar events; software errors; computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems; and security breaches related to the storage and transmission of proprietary information, such as credit card numbers or other personal information.

We have limited backup systems and redundancy. Recently, we experienced an unauthorized tampering of the mail server of our China Web site which briefly disrupted our operations. Future disruptions or any of the foregoing factors could damage our reputation, require us to expend significant capital and other resources and expose us to a risk of loss or litigation and possible liability. We do not carry sufficient business interruption insurance to compensate for losses that may occur as a result of any of these events. Accordingly, our revenues and results of operations may be adversely affected if any of the above disruptions should occur.

The law of the Internet remains largely unsettled, which subjects our business to legal uncertainties that could harm our business.

Due to the increasing popularity and use of the Internet and other online services, it is possible that a number of laws and regulations may be adopted with respect to the Internet or other online services covering issues such as user privacy, pricing, content, copyrights, distribution, antitrust and characteristics and quality of products and services. Furthermore, the growth and development of the market for electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies conducting business online. The adoption of any additional laws or regulations may decrease the growth of the Internet or other online services, which could, in turn, decrease the demand for our products and services and increase our cost of doing business.

Moreover, the applicability to the Internet and other online services of existing laws in various jurisdictions governing issues such as property ownership, sales and other taxes, libel and personal privacy is uncertain and

Edgar Filing: SINA COM - Form 10-Q

may take years to resolve. For example, tax authorities in a number of states in the U.S. are currently reviewing the appropriate tax treatment of companies engaged in electronic commerce, and new state tax regulations may subject us to additional state sales and income taxes. Any new legislation or regulation,

19

20

the application of laws and regulations from jurisdictions whose laws do not currently apply to our business, or the application of existing laws and regulations to the Internet and other online services could significantly disrupt our operations.

We may be subject to claims based on the content we provide over our network and the products and services sold on our network, which, if successful, could cause us to pay significant damage awards.

As a publisher and distributor of content and a provider of services over the Internet, we face potential liability for: defamation, negligence, copyright, patent or trademark infringement and other claims based on the nature and content of the materials that we publish or distribute; the selection of listings that are accessible through our branded products and media properties, or through content and materials that may be posted by users in our classifieds, message board and chat room services; losses incurred in reliance on any erroneous information published by us, such as stock quotes, analyst estimates or other trading information; unsolicited email, lost or misdirected messages, illegal or fraudulent use of email or interruptions or delays in email service; and product liability, warranty and similar claims to be asserted against us by end users who purchase goods and services through our SinaMall and any future electronic commerce services we may offer.

We may incur significant costs in investigating and defending any potential claims, even if they do not result in liability. Although we carry general liability insurance, our insurance may not cover potential claims of this type or be adequate enough to indemnify us against all potential liabilities.

Privacy concerns may prevent us from selling demographically targeted advertising in the future and make us less attractive to advertisers.

We collect personal data from our user base in order to understand better our users and their needs and to help our advertisers target specific demographic groups. If privacy concerns or regulatory restrictions prevent us from selling demographically targeted advertising, we may become less attractive to advertisers. For example, as part of our future advertisement delivery system, we may integrate user information such as advertisement response rate, name, address, age or email address, with third-party databases to generate comprehensive demographic profiles for individual users. In Hong Kong, however, we would be in violation of the Hong Kong Personal Data Ordinance unless individual users expressly consented to this integration of their personal information. The Ordinance provides that an Internet company may not collect information on its users, analyze the information for a profile of the user's interests and sell or transmit the profiles to third parties for direct marketing purposes without the user's consent. If we are unable to construct demographic profiles for Internet users because they refuse to give consent, we will be less attractive to advertisers and our business will suffer.

We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.

Edgar Filing: SINA COM - Form 10-Q

We rely on a combination of copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our technology. Monitoring unauthorized use of our products is difficult and costly, and we cannot be certain that the steps we have taken will prevent misappropriations of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources.

We may be exposed to infringement claims by third parties, which, if successful, could cause us to pay significant damage awards.

Third parties may initiate litigation against us alleging infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or license the infringed or similar technology on a timely basis, our business could be harmed. In addition, even if we are able to license the infringed or similar technology, license fees could be substantial and may adversely affect our results of operations.

We may be classified as a passive foreign investment company or as a foreign personal holding company, which could result in adverse U.S. tax consequences to you.

Based upon the nature of our income and assets, we may be classified as a passive foreign investment company, or PFIC, or as a foreign personal holding company, or FPHC, by the United States Internal Revenue Service for U.S. federal income tax purposes. This characterization could result in adverse U.S. tax consequences to you. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to more burdensome reporting

20

21

requirements. We believe that we were not a PFIC or an FPHC for 2000 or previous years, and we do not expect to be either in the future. However, the determination of whether or not we are a PFIC or an FPHC is made on an annual basis, and those determinations depend on the composition of our income and assets, in the case of the PFIC rules, and income and shareholders, in the case of the FPHC rules, from time to time. Although in the past we have operated our business, and in the future we intend to operate our business so as to minimize the risk of PFIC or FPHC treatment, you should be aware that certain factors that could affect our classification as PFIC or FPHC are out of our control. For example, the calculation of assets for purposes of the PFIC rules depends in large part upon the amount of our goodwill, which in turn is based, in part, on the then market value of our shares, which is subject to change. Similarly, the composition of our income and assets is affected by the extent to which we spend the cash we have raised on acquisitions and capital expenditures. Therefore, we cannot be sure that we will not be a PFIC or an FPHC for the current or any future taxable year.

Our stock price has been volatile historically, which may make it more difficult for you to resell shares when you want at prices you find attractive.

The trading price of our common stock has been and may continue to be subject to wide fluctuations. During 2000, the closing sale prices of our common stock on the Nasdaq Stock Market ranged from \$3.12 to \$54.50 and the sale price

Edgar Filing: SINA COM - Form 10-Q

of our common stock closed at \$3.91 on January 31, 2001. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable, and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance.

The possible sale of a substantial number of shares in the public market could adversely affect the price for our shares.

If our shareholders sell substantial amounts of our ordinary shares, including shares issued upon the exercise of outstanding options and warrants, in the public market, the market price of our ordinary shares could fall dramatically. Currently, approximately 35,000,000 shares are held by our existing shareholders which may be sold in the public market in the future pursuant to, and subject to the restrictions of, Rule 144, 144(k), 145 or 701 under the Securities Act. Our directors, executive officers and our principal shareholders have agreed with our underwriters not to offer, sell, contract to sell, or otherwise dispose of, directly or indirectly, any ordinary shares, or any securities convertible into or exercisable or exchangeable for ordinary shares for a period of 180 days following our initial public offering. This period expired on October 9, 2000.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

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

FOREIGN CURRENCY EXCHANGE RATE RISK

The majority of the Company's revenues derived and expenses and liabilities incurred were in Chinese renminbi, Taiwan dollars and Hong Kong dollars. Thus, our revenues and operating results may be impacted by exchange rate fluctuations in the currencies of China, Taiwan and Hong Kong. See "Risk Factors -- Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese renminbi into foreign currencies and, if renminbi were to decline in value, reducing our revenue in U.S. dollar terms." We have not tried to reduce our exposure to exchange rate fluctuations by using hedging transactions. However, we may choose to do so in the future. We may not be able to do this successfully. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations.

Edgar Filing: SINA COM - Form 10-Q

PART II---OTHER INFORMATION

Item 1. Legal Proceedings

There are no material legal proceedings pending or, to our knowledge, threatened against us.

Item 2. Changes in Securities and Use of Proceeds

The effective date of the Registration Statement for the Company's initial public offering, filed on Form F-1 under the Securities Act of 1933 (File No. 333-11718), was April 12, 2000. The class of securities registered was Ordinary Shares. The offering commenced on April 13, 2000. The managing underwriters for the offering were Morgan Stanley Dean Witter, China International Capital Corporation, Chase H&Q, and Robertson Stephens.

Pursuant to the Registration Statement, the Company sold 4,600,000 shares of its Ordinary Shares for an aggregate offering price of \$78.2 million.

The Company incurred expenses of approximately \$9.1 million, of which \$5.5 million represented underwriting discounts and commissions and approximately \$3.6 million represented other expenses related to the offering. The net offering proceeds to the Company after total expenses were \$ 69.1 million.

We plan to use the net proceeds for working capital and other general corporate purposes. A portion of the net proceeds may be used for the acquisition of businesses, products and technologies that are complementary to our own. The remaining net proceeds have been invested in cash, cash equivalents and short-term investments. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

On November 21, 2000, the Company held its Annual Meeting of Shareholders. At the meeting, the shareholders elected as directors Wang Zhidong (with 21,417,756 shares voting for and 15,369 withheld) and Yongji Duan (with 21,417,756 shares voting for and 15,369 withheld). The terms of the following directors not subject to reelection this year continued after the meeting: Pehong Chen, Daniel Chiang, Lip-Bu Tan and Ter Fung Tsao. The shareholders also ratified the appointment of PricewaterhouseCoopers LLP as the independent accountants for the Company for the year ending June 30, 2001 (with 21,421,266 shares voting for, 10,084 against, and 1,775 abstaining).

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

- 10.43: Change of Control Agreement dated November 27, 2000 with Zhidong Wang
- 10.44: Change of Control Agreement dated November 27, 2000 with Daniel

Edgar Filing: SINA COM - Form 10-Q

Mao

- 10.45: Change of Control Agreement dated November 27, 2000 with Victor Lee
- 10.46: Change of Control Agreement dated November 27, 2000 with Hurst Lin
- 10.47: Change of Control Agreement dated November 27, 2000 with Yan Wang

(b) Reports on Form 8-K.

22

23

No reports on Form 8-K were filed by SINA.com during the quarter ended December 31, 2000.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SINA.com

Dated: February 9, 2001

By: /s/ Charles Chao

Charles Chao
Chief Financial Officer
(Principal Financial and
Accounting Officer)

23

24

Index to Exhibits

| Exhibit Number ----- | Description ----- |
|----------------------------|---|
| 10.43: | Change of Control Agreement dated November 27, 2000 with Zhidong Wang |
| 10.44: | Change of Control Agreement dated November 27, 2000 with Daniel Mao |

Edgar Filing: SINA COM - Form 10-Q

- 10.45: Change of Control Agreement dated November 27, 2000 with Victor Lee
- 10.46: Change of Control Agreement dated November 27, 2000 with Hurst Lin
- 10.47: Change of Control Agreement dated November 27, 2000 with Yan Wang