

Baidu.com, Inc.
Form 20-F
May 30, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

Registration statement pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934
or

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2006.

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

or

Shell company report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of event requiring this shell company report _____

Commission file number: 000-51469

BAIDU.COM, INC.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

12/F, Ideal International Plaza

No. 58 West-North 4th Ring,

Beijing, 100080, People's Republic of China

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
American depositary shares, each	The NASDAQ Stock Market LLC
representing one Class A ordinary share, par value US\$0.00005 per share	(The NASDAQ Global Market)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report.

22,574,381 Class A ordinary shares and 11,130,018 Class B ordinary shares, par value US\$0.00005 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

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INTRODUCTION

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

we, us, our company, our, and Baidu refer to Baidu.com, Inc., its subsidiaries, and, in the context of describing our operations and consolidated financial information, also include Baidu Netcom and Beijing Perusal;

Baidu Online refers to Baidu Online Network Technology (Beijing) Co., Ltd., our wholly-owned subsidiary in China;

Baidu China refers to Baidu (China) Co., Ltd., our wholly-owned subsidiary in China;

Baidu Times refers to Baidu.com Times Technology (Beijing) Co., Ltd, our wholly-owned subsidiary in China;

Baidu Netcom refers to Baidu Netcom Science Technology Co., Ltd., our consolidated affiliated Chinese entity;

Beijing Perusal refers to Beijing Perusal Technology Co., Ltd., our consolidated affiliated Chinese entity;

user traffic or traffic refers generally to page views and the reach of a website; when used in the context of Alexa.com website traffic rankings, user traffic refers to the geometric mean of the page views and the reach of a website averaged over a specified period of time; page views measure the number of web pages viewed by Internet users over a specified period of time except that multiple page views of the same page viewed by the same user on the same day are counted only once; reach measures the number of Internet users and is typically expressed as the percentage of all Internet users who visit a given website over a specified period of time;

China or PRC refers to the People's Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau;

shares or ordinary shares refers to our ordinary shares which include both Class A ordinary shares and Class B ordinary shares; convertible preferred shares refers to and includes our Series A, Series B and Series C redeemable convertible preferred shares, all of which were converted into the same number of Class B ordinary shares upon the completion of our initial public offering on August 10, 2005; preferred shares refers to our preferred shares, none of which is issued and outstanding.

ADSs refers to our American depositary shares, each of which represents one Class A ordinary share, and ADRs refers to the American depositary receipts that evidence our ADSs;

GAAP refers to general accepted accounting principles in the United States;

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all references to RMB or Renminbi are to the legal currency of China and all references to \$, dollars, US\$ and U.S. dollars are to the legal currency of the United States;

all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding; and

the conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB7.8041 to US\$1.00, the noon buying rate in effect as of December 29, 2006.

This annual report on Form 20-F includes our audited consolidated statements of income data for the years ended December 31, 2004, 2005 and 2006, and audited consolidated balance sheet data as of December 31, 2005 and 2006.

On August 5, 2005, we listed our ADSs on The Nasdaq National Market, which has been renamed The Nasdaq Global Market, or Nasdaq, under the symbol BIDU. We and certain selling shareholders of our company completed the initial public offering of 4,604,224 ADSs, each representing one Class A ordinary share, par value US\$0.00005 per share, on August 10, 2005.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. These statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by words or phrases such as may, will, expect, anticipate, aim, estimate, intend, plan, believe, is/are likely to or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include:

our anticipated growth strategies;

our future business development, results of operations and financial condition;

our ability to attract and retain users and customers;

the outcome of ongoing or any future litigation, including those relating to copyright or other intellectual property rights;

competition in the Chinese language and Japanese language Internet search markets;

the expected growth of the Chinese language Internet search market and the number of Internet and broadband users in China; and

PRC governmental policies relating to the Internet and Internet search providers.

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We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in Item 3D. of this annual report, Key Information Risk Factors. Those risks are not exhaustive. We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

PART I**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

Item 3. KEY INFORMATION**A. Selected Financial Data**

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of income data for the three years ended December 31, 2004, 2005 and 2006 and the consolidated balance sheet data as of December 31, 2005 and 2006 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. Our historical results do not necessarily indicate results expected for any future periods. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and Item 5. Operating and Financial Review and Prospects below.

Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our selected consolidated statements of income data for the years ended December 31, 2002 and 2003 and our consolidated balance sheet data as of December 31, 2003 and 2004 have been derived from our audited consolidated financial statements, which are not included in this annual report. Our selected consolidated balance sheet data as of December 31, 2002 have been derived from our unaudited consolidated balance sheet as of December 31, 2002, which is not included in this annual report, but which has been prepared on the same basis as our audited consolidated financial statements.

	For the Year Ended December 31,					US\$
	2002	2003	2004	2005	2006	
<i>(in thousands except per share and per ADS data)</i>	RMB	RMB	RMB	RMB	RMB	
Consolidated Statements of Income Data:						
Revenues:						
Online marketing services	4,292	31,775	106,854	307,363	828,484	106,160
Other services	6,728	8,796	10,597	11,852	9,354	1,199

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<i>(in thousands except per share and per ADS data)</i>	For the Year Ended December 31,					
	2002 RMB	2003 RMB	2004 RMB	2005 RMB	2006 RMB	US\$
Total revenues	11,020	40,571	117,451	319,215	837,838	107,359
Operating costs and expenses:						
Cost of revenues	(10,328)	(23,284)	(41,192)	(104,401)	(245,489)	(31,456)
Selling, general and administrative	(14,985)	(19,599)	(50,724)	(134,771)	(250,240)	(32,065)
Research and development	(4,750)	(6,983)	(14,531)	(44,200)	(79,231)	(10,153)
Total operating costs and expenses	(30,063)	(49,866)	(106,447)	(283,372)	(574,960)	(73,674)
Operating (loss)/profit	(19,043)	(9,295)	11,004	35,843	262,878	33,685
Interest income	586	325	1,135	13,580	42,443	5,438
Other income (expense), net	(120)	85	347	93	4,098	525
Taxation			(481)	(1,911)	(12,256)	(1,570)
Cumulative effect of change in accounting principle					4,603	590
Net (loss)/income	(18,577)	(8,885)	12,005	47,605	301,766	38,668
Net (loss)/income per ordinary share and per ADS:						
Basic	(2.44)	(0.87)	1.09	2.40	9.06	1.16
Diluted	(2.44)	(0.87)	0.43	1.49	8.75	1.12
Weighted average number of ordinary shares used in per share calculations:						
Basic	7,622	10,189	10,983	19,808	33,291	33,291
Diluted	7,622	10,189	28,124	32,044	34,507	34,507
Pro forma net earnings per share on an as converted basis for Class A and Class B ordinary shares (unaudited) ⁽¹⁾						
Basic			0.45	1.58	9.06	1.16
Diluted			0.43	1.49	8.75	1.12
Pro forma weighted average aggregate number of ordinary shares on an as converted basis used in per share calculations for Class A and Class B ordinary shares (unaudited) ⁽¹⁾						
Basic			26,696	30,214	33,291	33,291
Diluted			28,124	32,044	34,507	34,507

(1) As holders of Class A and Class B ordinary shares have the same dividend right and the same participation right in our undistributed earnings, the basic and diluted pro forma earnings per share of Class A and Class B ordinary shares are the same for all the periods presented.

<i>(in thousands)</i>	As of December 31,					
	2002 RMB	2003 RMB	2004 RMB	2005 RMB	2006 RMB	US\$
Consolidated Balance Sheets Data:						
Cash and cash equivalents	58,009	62,825	200,196	900,593	1,136,274	145,600
Total assets	67,549	76,703	262,206	1,136,423	1,668,077	213,743
Total liabilities	6,781	19,639	54,192	131,370	310,816	39,827
Redeemable convertible preferred shares	91,622	91,622	211,352			
Total shareholders (deficit) / equity	(30,854)	(34,558)	(3,338)	1,005,053	1,357,261	173,916
Total liabilities, redeemable convertible preferred shares and shareholders equity	67,549	76,703	262,206	1,136,423	1,668,077	213,743

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Our business is primarily conducted in China and all of our revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current exchange rates, for the convenience of the readers. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB7.8041 to US\$1.00, the noon buying rate in effect as of December 29, 2006. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On May 29, 2007, the noon buying rate was RMB7.6514 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Noon Buying Rate			High
	Period-End	Average ⁽¹⁾ (RMB per U.S. Dollar)	Low	
2002	8.2800	8.2772	8.2800	8.2700
2003	8.2767	8.2771	8.2800	8.2765
2004	8.2765	8.2768	8.2771	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
November	7.8340	7.8622	7.8750	7.8303
December	7.8041	7.8219	7.8350	7.8041
2007				
January	7.7714	7.7876	7.8127	7.7705
February	7.7410	7.7502	7.7632	7.7410
March	7.7232	7.7369	7.7454	7.7232
April	7.7090	7.7247	7.7345	7.7090
May (through May 29, 2007)	7.6514	7.6801	7.7065	7.6490

(1) Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant period.

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B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Related to Our Business

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a limited operating history. We commenced operations in 2000 and first achieved profitability in the quarter ended March 31, 2004. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the Internet industry in China. Some of these risks and uncertainties relate to our ability to:

maintain our leading position in the Internet search market in China;

successfully enter and build profitable operations in the Internet search market in Japan;

offer new and innovative products and services to attract and retain a larger user base;

attract additional customers and increase spending per customer;