

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

	Three Months Ended		
	Sep. 30, 2015	Jun. 30, 2015	Sep. 30, 2014
Revenues:			
Online advertising			
Brand advertising	\$ 151,517	\$ 150,849	\$ 148,823
Search and search-related	147,938	135,206	98,437
Subtotal	<u>299,455</u>	<u>286,055</u>	<u>247,260</u>
Online games	152,501	172,350	150,338
Others (a)	<u>70,134</u>	<u>35,161</u>	<u>32,817</u>
Total revenues	<u>522,090</u>	<u>493,566</u>	<u>430,415</u>
Cost of revenues:			
Online advertising			
Brand advertising (includes stock-based compensation expense of \$184, \$508, and \$218, respectively)	91,163	99,847	83,424
Search and search-related (includes stock-based compensation expense of \$12, \$54, and \$193, respectively)	62,365	58,552	46,375
Subtotal	<u>153,528</u>	<u>158,399</u>	<u>129,799</u>
Online games (includes stock-based compensation expense of \$-96, \$44, and \$58, respectively)	34,635	43,929	33,949
Others (includes stock-based compensation expense of \$0, \$0, and \$0, respectively) (a)	<u>25,996</u>	<u>18,872</u>	<u>17,912</u>
Total cost of revenues	<u>214,159</u>	<u>221,200</u>	<u>181,660</u>
Gross profit	307,931	272,366	248,755
Operating expenses:			
Product development (includes stock-based compensation expense of \$-1,332, \$6,234, and \$6,052, respectively)	92,779	100,771	107,971
Sales and marketing (includes stock-based compensation expense of \$466, \$862, and \$937, respectively)	98,596	103,977	131,742
General and administrative (includes stock-based compensation expense of \$-1,536, \$10,838, and \$7,342, respectively)	33,330	49,720	49,730
Goodwill impairment and impairment of intangibles via acquisitions of businesses	40,324	-	-
Total operating expenses	<u>265,029</u>	<u>254,468</u>	<u>289,443</u>
Operating profit /(loss)	42,902	17,898	(40,688)
Other income /(expense)	70,219	(437)	896
Interest income	5,192	6,228	7,468
Exchange difference	<u>4,322</u>	<u>(687)</u>	<u>(610)</u>
Income /(loss) before income tax expense /(benefit)	122,635	23,002	(32,934)
Income tax expense /(benefit)	<u>29,461</u>	<u>11,519</u>	<u>(1,036)</u>
Net income /(loss)	<u>93,174</u>	<u>11,483</u>	<u>(31,898)</u>
Less: Net income /(loss) attributable to the noncontrolling interest shareholders	<u>42,142</u>	<u>38,682</u>	<u>(4,760)</u>
Deemed dividend to non-controlling Sogou series A preferred shareholders	<u>11,911</u>	<u>-</u>	<u>-</u>
Net income /(loss) attributable to Sohu.com Inc.	<u>39,121</u>	<u>(27,199)</u>	<u>(27,138)</u>
Basic net income /(loss) per share attributable to Sohu.com Inc.	<u>\$ 1.01</u>	<u>\$ (0.70)</u>	<u>\$ (0.71)</u>
Shares used in computing basic net income /(loss) per share attributable to Sohu.com Inc.	<u>38,633</u>	<u>38,587</u>	<u>38,485</u>
Diluted net income /(loss) per share attributable to Sohu.com Inc.	<u>\$ 1.00</u>	<u>\$ (0.71)</u>	<u>\$ (0.74)</u>
Shares used in computing diluted net income /(loss) per share attributable to Sohu.com Inc.	<u>38,665</u>	<u>38,587</u>	<u>38,485</u>

Note:

(a) Comparative revenues and cost of revenues for mobile has been merged with others to conform to the current period presentation.

SOHU.COM INC.

RECONCILIATIONS OF NON-GAAP RESULTS OF OPERATION MEASURES TO THE NEAREST COMPARABLE GAAP MEASURES

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended Sep. 30, 2015			Three Months Ended Jun. 30, 2015			Three Months Ended Sep. 30, 2014		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 60,354	\$ 184	\$ 60,538	\$ 51,002	\$ 508	\$ 51,510	\$ 65,399	\$ 218	\$ 65,617
Brand advertising gross margin	40%		40%	34%		34%	44%		44%
Search and search-related gross profit	\$ 85,573	\$ 12	\$ 85,585	\$ 76,654	\$ 54	\$ 76,708	\$ 52,062	\$ 193	\$ 52,255
Search and search-related gross margin	58%		58%	57%		57%	53%		53%
Online advertising gross profit	\$ 145,927	\$ 196	\$ 146,123	\$ 127,656	\$ 562	\$ 128,218	\$ 117,461	\$ 411	\$ 117,872
Online advertising gross margin	49%		49%	45%		45%	48%		48%
Online games gross profit	\$ 117,866	\$ (96)	\$ 117,770	\$ 128,421	\$ 44	\$ 128,465	\$ 116,389	\$ 58	\$ 116,447
Online games gross margin	77%		77%	75%		75%	77%		77%
Others gross profit	\$ 44,138	\$ -	\$ 44,138	\$ 16,289	\$ -	\$ 16,289	\$ 14,905	\$ -	\$ 14,905
Others gross margin	63%		63%	46%		46%	45%		45%
Gross profit	\$ 307,931	\$ 100	\$ 308,031	\$ 272,366	\$ 606	\$ 272,972	\$ 248,755	\$ 469	\$ 249,224
Gross margin	59%		59%	55%		55%	58%		58%
Operating profit /(loss)	\$ 42,902	\$ (2,302)	\$ 40,600	\$ 17,898	\$ 18,540	\$ 36,438	\$ (40,688)	\$ 14,800	\$ (25,888)
Operating margin	8%		8%	4%		7%	-9%		-6%
Net income /(loss) before Non-Controlling Interest	\$ 93,174	\$ (2,302)	\$ 90,872	\$ 11,483	\$ 18,540	\$ 30,023	\$ (31,898)	\$ 14,800	\$ (17,098)

		(2,302)	(a)							
		725	(b)		18,540	(a)		14,800	(a)	
		<u>11,911</u>	(c)		<u>(5,452)</u>	(b)		<u>(9,847)</u>	(b)	
Net income /(loss) attributable to Sohu.com Inc. for diluted net loss per share	\$ <u>38,796</u>	\$ <u>10,334</u>		\$ <u>49,130</u>	\$ <u>(27,538)</u>	\$ <u>13,088</u>	\$ <u>(14,450)</u>	\$ <u>(28,402)</u>	<u>4,953</u>	<u>(23,449)</u>
Diluted net income /(loss) per share attributable to Sohu.com Inc.	\$ <u>1.00</u>			\$ <u>1.27</u>	\$ <u>(0.71)</u>		\$ <u>(0.37)</u>	\$ <u>(0.74)</u>		<u>(0.61)</u>
Shares used in computing diluted net income /(loss) per share attributable to Sohu.com Inc.	<u>38,665</u>			<u>38,701</u>	<u>38,587</u>		<u>38,587</u>	<u>38,485</u>		<u>38,485</u>

Note:

- (a) To eliminate the impact of share-based awards as measured using the fair value method. In the third quarter of 2015, there was a credit to expenses resulting from an adjustment of share-based compensation expense, based primarily on a re-measurement of the fair value of outstanding options based on their then-current fair value.
- (b) To adjust Sohu's economic interests in Changyou and Sogou under the treasury stock method.
- (c) Deemed dividend to non-controlling Sogou series A preferred shareholders.