

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

	Three Months Ended		
	Sep. 30, 2018	Jun. 30, 2018	Sep. 30, 2017
Revenues:			
Online advertising			
Brand advertising	\$ 56,958	\$ 61,511	\$ 74,832
Search and search-related advertising	255,130	270,359	225,363
Subtotal	<u>312,088</u>	<u>331,870</u>	<u>300,195</u>
Online games	95,971	94,250	132,427
Others	51,763	59,894	83,439
Total revenues	<u>459,822</u>	<u>486,014</u>	<u>516,061</u>
Cost of revenues:			
Online advertising			
Brand advertising (includes stock-based compensation expense of \$-14, \$-2, and \$278, respectively)	44,059	47,319	75,733
Search and search-related (includes stock-based compensation expense of \$235, \$263, and \$0, respectively)	167,664	168,126	115,422
Subtotal	<u>211,723</u>	<u>215,445</u>	<u>191,155</u>
Online games (includes stock-based compensation expense of \$-3, \$-23, and \$4, respectively)	14,902	14,461	17,560
Others	33,716	44,346	53,679
Total cost of revenues	<u>260,341</u>	<u>274,252</u>	<u>262,394</u>
Gross profit	199,481	211,762	253,667
Operating expenses:			
Product development (includes stock-based compensation expense of \$2,362, \$2,136, and \$2,247, respectively)	107,164	113,843	105,162
Sales and marketing (includes stock-based compensation expense of \$201, \$77, and \$344, respectively)	106,056	102,138	111,935
General and administrative (includes stock-based compensation expense of \$-1,062, \$-1,260, and \$3,682, respectively)	35,078	27,982	31,038
Goodwill impairment and impairment of intangibles via acquisitions of businesses	-	-	86,882
Total operating expenses	<u>248,298</u>	<u>243,963</u>	<u>335,017</u>
Operating loss	(48,817)	(32,201)	(81,350)
Other income/(expense)	28,822	9,991	(5,068)
Interest income	4,658	5,156	6,497
Interest expense	(6,174)	(3,004)	(1,141)
Exchange difference	7,970	10,774	(5,032)
Loss before income tax expense	(13,541)	(9,284)	(86,094)
Income tax expense /(benefit)	(13,145)	5,891	15,927
Net loss	<u>(396)</u>	<u>(15,175)</u>	<u>(102,021)</u>
Less: Net income attributable to the noncontrolling interest shareholders	<u>33,870</u>	<u>32,463</u>	<u>1,939</u>
Net loss attributable to Sohu.com Limited	<u>(34,266)</u>	<u>(47,638)</u>	<u>(103,960)</u>
Basic net loss per ADS attributable to Sohu.com Limited	\$ (0.88)	\$ (1.22)	\$ (2.67)
ADSS used in computing basic net loss per ADS attributable to Sohu.com Limited	<u>38,936</u>	<u>38,927</u>	<u>38,877</u>
Diluted net loss per ADS attributable to Sohu.com Limited	\$ (0.89)	\$ (1.23)	\$ (2.67)
ADSS used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>38,936</u>	<u>38,927</u>	<u>38,877</u>

SOHU.COM LIMITED

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

(UNAUDITED, IN THOUSANDS EXCEPT PER ADS AMOUNTS)

	Three Months Ended Sep. 30, 2018			Three Months Ended Jun. 30, 2018			Three Months Ended Sep. 30, 2017		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 12,899	\$ (14)	(a) \$ 12,885	\$ 14,192	\$ (2)	(a) \$ 14,190	\$ (901)	\$ 278	(a) \$ (623)
Brand advertising gross margin	23%		23%	23%		23%	-1%		-1%
Search and search-related advertising gross profit	\$ 87,466	\$ 235	(a) \$ 87,701	\$ 102,233	\$ 263	(a) \$ 102,496	\$ 109,941	\$ -	(a) \$ 109,941
Search and search-related advertising gross margin	34%		34%	38%		38%	49%		49%
Online advertising gross profit	\$ 100,365	\$ 221	(a) \$ 100,586	\$ 116,425	\$ 261	(a) \$ 116,686	\$ 109,040	\$ 278	(a) \$ 109,318
Online advertising gross margin	32%		32%	35%		35%	36%		36%
Online games gross profit	\$ 81,069	\$ (3)	(a) \$ 81,066	\$ 79,789	\$ (23)	(a) \$ 79,766	\$ 114,867	\$ 4	(a) \$ 114,871
Online games gross margin	84%		84%	85%		85%	87%		87%
Others gross profit	\$ 18,047	\$ -	(a) \$ 18,047	\$ 15,548	\$ -	(a) \$ 15,548	\$ 29,760	\$ -	(a) \$ 29,760
Others gross margin	35%		35%	26%		26%	36%		36%
Gross profit	\$ 199,481	\$ 218	(a) \$ 199,699	\$ 211,762	\$ 238	(a) \$ 212,000	\$ 253,667	\$ 282	(a) \$ 253,949
Gross margin	43%		43%	44%		44%	49%		49%
Operating expenses	\$ 248,298	\$ (1,501)	(a) \$ 246,797	\$ 243,963	\$ (953)	(a) \$ 243,010	\$ 335,017	\$ (6,273)	(a) \$ 328,744
Operating loss	\$ (48,817)	\$ 1,719	(a) \$ (47,098)	\$ (32,201)	\$ 1,191	(a) \$ (31,010)	\$ (81,350)	\$ 6,555	(a) \$ (74,795)

Operating margin		<u>-11%</u>		<u>-10%</u>	<u>-7%</u>		<u>-6%</u>	<u>-16%</u>		<u>-14%</u>									
Income tax benefit/(expense)	\$	<u>13,145</u>	\$	<u>(1,286)</u>	\$	<u>11,859</u>	\$	<u>(5,891)</u>	\$	<u>165</u>	\$	<u>(5,726)</u>	\$	<u>(15,927)</u>	\$	<u>-</u>	(a)	\$	<u>(15,927)</u>
Net (loss)/income before non-controlling interest	\$	<u>(396)</u>	\$	<u>5,580</u>	\$	<u>5,184</u>	\$	<u>(15,175)</u>	\$	<u>697</u>	\$	<u>(14,478)</u>	\$	<u>(102,021)</u>	\$	<u>12,309</u>		\$	<u>(89,712)</u>
Net loss attributable to Sohu.com Limited for diluted net loss per ADS	\$	<u>(34,685)</u>	\$	<u>3,009</u>	\$	<u>(31,676)</u>	\$	<u>(47,965)</u>	\$	<u>(1,279)</u>	\$	<u>(49,244)</u>	\$	<u>(103,960)</u>	\$	<u>11,292</u>		\$	<u>(92,668)</u>
Diluted net loss per ADS attributable to Sohu.com Limited	\$	<u>(0.89)</u>		<u>(0.81)</u>	\$	<u>(1.23)</u>		<u>(1.27)</u>	\$	<u>(2.67)</u>		<u>(2.38)</u>		<u>(2.38)</u>		<u>(2.38)</u>		<u>(2.38)</u>	
ADSS used in computing diluted net loss per ADS attributable to Sohu.com Limited		<u>38,936</u>		<u>38,936</u>		<u>38,927</u>		<u>38,927</u>		<u>38,877</u>		<u>38,877</u>		<u>38,877</u>		<u>38,877</u>		<u>38,877</u>	

Note:

- (a) To eliminate the impact of share-based awards as measured using the fair value method. This adjustment does not have an impact on income tax expense.
- (b) To adjust Sohu's economic interests in Changyou and Sogou attributable to the above non-GAAP adjustments. This adjustment does not have an impact on income tax expense.
- (c) To adjust for a change in the fair value of the Company's investment in Hylink and the income tax effect.
- (d) To adjust impairment loss of available-for-sale securities of an investee that is unrelated to the Company's current business operations.