

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

	Three Months Ended		
	Mar. 31, 2019	Dec. 31, 2018	Mar. 31, 2018
Revenues:			
Online advertising			
Brand advertising	\$ 42,981	\$ 57,222	\$ 56,254
Search and search-related advertising	234,130	276,666	220,301
Subtotal	<u>277,111</u>	<u>333,888</u>	<u>276,555</u>
Online games	99,054	94,106	105,461
Others	55,215	54,204	72,979
Total revenues	<u>431,380</u>	<u>482,198</u>	<u>454,995</u>
Cost of revenues:			
Online advertising			
Brand advertising (includes stock-based compensation expense of \$38, \$-34, and \$-657, respectively)	34,305	42,485	50,611
Search and search-related (includes stock-based compensation expense of \$27, \$-48, and \$219 respectively)	178,824	183,678	144,696
Subtotal	<u>213,129</u>	<u>226,163</u>	<u>195,307</u>
Online games (includes stock-based compensation expense of \$0, \$7, and \$-12, respectively)	14,362	14,499	17,119
Others	32,734	35,633	48,407
Total cost of revenues	<u>260,225</u>	<u>276,295</u>	<u>260,833</u>
Gross profit	171,155	205,903	194,162
Operating expenses:			
Product development (includes stock-based compensation expense of \$1,019, \$919, and \$715, respectively)	100,434	108,611	111,543
Sales and marketing (includes stock-based compensation expense of \$120, \$216, and \$-89, respectively)	85,454	102,112	90,273
General and administrative (includes stock-based compensation expense of \$911, \$470, and \$-2,520, respectively)	23,833	26,828	23,836
Goodwill impairment and impairment of intangibles via acquisitions of businesses	7,245	16,369 ¹	-
Total operating expenses	<u>216,966</u>	<u>253,920</u>	<u>225,652</u>
Operating loss	(45,811)	(48,017)	(31,490)
Other income	14,215	13,073	12,281
Interest income	3,795	6,457	7,808
Interest expense	(5,501)	(5,279)	(3,081)
Exchange difference	(2,662)	(378)	(9,340)
Loss before income tax expense	(35,964)	(34,144)	(23,822)
Income tax expense/(benefit)	11,208	(69,557)	63,379
Net income/(loss)	<u>(47,172)</u>	<u>35,413</u>	<u>(87,201)</u>
Less: Net income attributable to the noncontrolling interest shareholders	9,257	20,773	5,617
Net income/(loss) attributable to Sohu.com Limited	<u>(56,429)</u>	<u>14,640</u>	<u>(92,818)</u>
Basic net income/(loss) per ADS attributable to Sohu.com Limited	\$ (1.44)	\$ 0.37	\$ (2.39)
ADS used in computing basic net loss per ADS attributable to Sohu.com Limited	<u>39,236</u>	<u>39,069</u>	<u>38,904</u>
Diluted net income/(loss) per ADS attributable to Sohu.com Limited	\$ (1.44)	\$ 0.37	\$ (2.39)
ADS used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>39,236</u>	<u>39,234</u>	<u>38,904</u>

¹ The impairment was mainly related to Changyou's 17173.com website business. The launch of new initiatives for the 17173.com website fell behind schedule in the fourth quarter of 2018, and the profit outlook of the business remained uncertain. In addition, due to more stringent regulations, there was a significant decline in the number of new game launches in the market, so the number of games marketed on 17173.com also fell. As a result, Changyou determined that the future performance of 17173.com would likely fall short of expectations, and that impairment charges were required.

SOHU.COM LIMITED

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

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended Mar. 31, 2019			Three Months Ended Dec. 31, 2018			Three Months Ended Mar. 31, 2018		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 8,676	\$ 38	(a) \$ 8,714	\$ 14,737	\$ (34)	(a) \$ 14,703	\$ 5,643	\$ (657)	(a) \$ 4,986
Brand advertising gross margin	20%		20%	26%		26%	10%		9%
Search and search-related advertising gross profit	\$ 55,306	\$ 27	(a) \$ 55,333	\$ 92,988	\$ (48)	(a) \$ 92,940	\$ 75,605	\$ 219	(a) \$ 75,824
Search and search-related advertising gross margin	24%		24%	34%		34%	34%		34%
Online advertising gross profit	\$ 63,982	\$ 65	(a) \$ 64,047	\$ 107,725	\$ (82)	(a) \$ 107,643	\$ 81,248	\$ (438)	(a) \$ 80,810
Online advertising gross margin	23%		23%	32%		32%	29%		29%
Online games gross profit	\$ 84,692	\$ -	(a) \$ 84,692	\$ 79,607	\$ 7	(a) \$ 79,614	\$ 88,342	\$ (12)	(a) \$ 88,330
Online games gross margin	86%		86%	85%		85%	84%		84%
Others gross profit	\$ 22,481	\$ -	(a) \$ 22,481	\$ 18,571	\$ -	(a) \$ 18,571	\$ 24,572	\$ -	(a) \$ 24,572
Others gross margin	41%		41%	34%		34%	34%		34%
Gross profit	\$ 171,155	\$ 65	(a) \$ 171,220	\$ 205,903	\$ (75)	(a) \$ 205,828	\$ 194,162	\$ (450)	(a) \$ 193,712
Gross margin	40%		40%	43%		43%	43%		43%
Operating expenses	\$ 216,966	\$ (2,050)	(a) \$ 214,916	\$ 253,920	\$ (1,605)	(a) \$ 252,315	\$ 225,652	\$ 1,894	(a) \$ 227,546
Operating loss	\$ (45,811)	\$ 2,115	(a) \$ (43,696)	\$ (48,017)	\$ 1,530	(a) \$ (46,487)	\$ (31,490)	\$ (2,344)	(a) \$ (33,834)

Operating margin		<u>-11%</u>		<u>-10%</u>	<u>-10%</u>		<u>-10%</u>	<u>-7%</u>		<u>-7%</u>											
Income tax benefit/(expense)	\$	<u>(11,208)</u>	\$	<u>1,778</u>	(c,d)	\$	<u>(9,430)</u>	\$	<u>69,557</u>	\$	<u>(74,160)</u>	(c,d)	\$	<u>(4,603)</u>	\$	<u>(63,379)</u>	\$	<u>-</u>	\$	<u>(63,379)</u>	
				2,115	(a)					1,530	(a)									(2,344)	(a)
				(744)	(c)					267	(c)									-	
				1,531	(d)					(74,071)	(d)									-	
Net income/(loss) before non-controlling interest	\$	<u>(47,172)</u>		<u>2,902</u>			<u>(44,270)</u>	\$	<u>35,413</u>		<u>(72,274)</u>		<u>(36,861)</u>	\$	<u>(87,201)</u>	\$	<u>(2,344)</u>				<u>(89,545)</u>
				2,115	(a)					1,530	(a)									(2,344)	(a)
				(798)	(b)					(976)	(b)									(2,102)	(b)
				(744)	(c)					267	(c)									-	
				1,531	(d)					(74,071)	(d)									-	(d)
Net income/(loss) attributable to Sohu.com Limited for diluted net loss per ADS	\$	<u>(56,650)</u>		<u>2,104</u>			<u>(54,546)</u>	\$	<u>14,511</u>		<u>(73,250)</u>		<u>(58,739)</u>	\$	<u>(92,925)</u>	\$	<u>(4,446)</u>				<u>(97,371)</u>
Diluted net income/(loss) per ADS attributable to Sohu.com Limited	\$	<u>(1.44)</u>					<u>(1.39)</u>	\$	<u>0.37</u>				<u>(1.50)</u>	\$	<u>(2.39)</u>						<u>(2.50)</u>
Shares used in computing diluted net loss per ADS attributable to Sohu.com Limited		<u>39,236</u>					<u>39,236</u>		<u>39,234</u>				<u>39,069</u>		<u>38,904</u>						<u>38,904</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 for the effect of the U.S. TCJA.