

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

	Three Months Ended		
	Sep. 30, 2016	Jun. 30, 2016	Sep. 30, 2015
Revenues:			
Online advertising			
Brand advertising	\$ 110,871	\$ 112,887	\$ 151,517
Search and search-related	150,667	160,152	147,938
Subtotal	<u>261,538</u>	<u>273,039</u>	<u>299,455</u>
Online games	98,553	99,227	152,501
Others	50,491	47,872	70,134
Total revenues	<u>410,582</u>	<u>420,138</u>	<u>522,090</u>
Cost of revenues:			
Online advertising			
Brand advertising (includes stock-based compensation expense of \$265, \$-73 and \$184, respectively)	102,137	93,654	91,163
Search and search-related (includes stock-based compensation expense of \$4, \$0 and \$12, respectively)	76,457	71,998	62,365
Subtotal	<u>178,594</u>	<u>165,652</u>	<u>153,528</u>
Online games (includes stock-based compensation expense of \$26, \$17 and \$-96, respectively)	23,719	25,380	34,635
Others	20,571	21,226	25,996
Total cost of revenues	<u>222,884</u>	<u>212,258</u>	<u>214,159</u>
Gross profit	187,698	207,880	307,931
Operating expenses:			
Product development (includes stock-based compensation expense of \$4,105, \$1,699 and \$-1,332, respectively)	90,007	88,959	92,779
Sales and marketing (includes stock-based compensation expense of \$752, \$161 and \$466, respectively)	110,584	117,966	98,596
General and administrative (includes stock-based compensation expense of \$8,018, \$740 and \$-1,536, respectively)	38,670	29,650	33,330
Goodwill impairment and impairment of intangibles via acquisitions of businesses	-	-	40,324
Total operating expenses	<u>239,261</u>	<u>236,575</u>	<u>265,029</u>
Operating (loss) /profit	(51,563)	(28,695)	42,902
Other income /(expense)	3,678	(24,573)	70,219
Net interest income	6,118	5,040	5,192
Exchange difference	702	3,866	4,322
(Loss) /income before income tax expense	<u>(41,065)</u>	<u>(44,362)</u>	<u>122,635</u>
Income tax expense	974	2,430	29,461
Net (loss) /income	<u>(42,039)</u>	<u>(46,792)</u>	<u>93,174</u>
Less: Net income attributable to the noncontrolling interest shareholders	32,775	16,232	42,142
Deemed dividend to non-controlling Sogou series A preferred shareholders	-	-	11,911
Net (loss) /income attributable to Sohu.com Inc.	<u>(74,814)</u>	<u>(63,024)</u>	<u>39,121</u>
Basic net (loss) /income per share attributable to Sohu.com Inc.	\$ (1.93)	\$ (1.63)	\$ 1.01
Shares used in computing basic net (loss) /income per share attributable to Sohu.com Inc.	<u>38,728</u>	<u>38,691</u>	<u>38,633</u>
Diluted net (loss) /income per share attributable to Sohu.com Inc.	\$ (1.94)	\$ (1.64)	\$ 1.00
Shares used in computing diluted net (loss) /income per share attributable to Sohu.com Inc.	<u>38,728</u>	<u>38,691</u>	<u>38,665</u>

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, 2016			Three Months Ended Jun. 30, 2016			Three Months Ended Sep. 30, 2015		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 8,734	\$ 265	(a) \$ 8,999	\$ 19,233	\$ (73)	(a) \$ 19,160	\$ 60,354	\$ 184	(a) \$ 60,538
Brand advertising gross margin	8%		8%	17%		17%	40%		40%
Search and search-related gross profit	\$ 74,210	\$ 4	(a) \$ 74,214	\$ 88,154	\$ -	(a) \$ 88,154	\$ 85,573	\$ 12	(a) \$ 85,585
Search and search-related gross margin	49%		49%	55%		55%	58%		58%
Online advertising gross profit	\$ 82,944	\$ 269	(a) \$ 83,213	\$ 107,387	\$ (73)	(a) \$ 107,314	\$ 145,927	\$ 196	(a) \$ 146,123
Online advertising gross margin	32%		32%	39%		39%	49%		49%
Online games gross profit	\$ 74,834	\$ 26	(a) \$ 74,860	\$ 73,847	\$ 17	(a) \$ 73,864	\$ 117,866	\$ (96)	(a) \$ 117,770
Online games gross margin	76%		76%	74%		74%	77%		77%
Others gross profit	\$ 29,920	\$ -	(a) \$ 29,920	\$ 26,646	\$ -	(a) \$ 26,646	\$ 44,138	\$ -	\$ 44,138
Others gross margin	59%		59%	56%		56%	63%		63%
Gross profit	\$ 187,698	\$ 295	(a) \$ 187,993	\$ 207,880	\$ (56)	(a) \$ 207,824	\$ 307,931	\$ 100	(a) \$ 308,031
Gross margin	46%		46%	49%		49%	59%		59%
Operating (loss) /profit	\$ (51,563)	\$ 13,170	(a) \$ (38,393)	\$ (28,695)	\$ 2,544	(a) \$ (26,151)	\$ 42,902	\$ (2,302)	(a) \$ 40,600
Operating margin	-13%		-9%	-7%		-6%	8%		8%
Net (loss) /income before non-controlling interest	\$ (42,039)	\$ 13,147	(a) \$ (28,892)	\$ (46,792)	\$ 2,550	(a) \$ (44,242)	\$ 93,174	\$ (2,302)	(a) \$ 90,872

		13,147	(a)		2,550	(a)		(2,302)	(a)									
		<u>(2,806)</u>	(b)		<u>(2,001)</u>	(b)		<u>725</u>	(b)									
								<u>11,911</u>	(c)									
Net (loss) /income attributable to Sohu.com Inc. for diluted net (loss) /income per share	\$	<u>(75,286)</u>	\$	<u>10,341</u>	\$	<u>(64,945)</u>	\$	<u>(63,386)</u>	\$	<u>549</u>	\$	<u>(62,837)</u>	\$	<u>38,796</u>	\$	<u>10,334</u>	\$	<u>49,130</u>
Diluted net (loss) /income per share attributable to Sohu.com Inc.	\$	<u>(1.94)</u>	\$	<u>(1.68)</u>	\$	<u>(1.64)</u>	\$	<u>(1.62)</u>	\$	<u>1.00</u>	\$	<u>1.27</u>						
Shares used in computing diluted net (loss) /income per share attributable to Sohu.com Inc.		<u>38,728</u>		<u>38,728</u>		<u>38,691</u>		<u>38,691</u>		<u>38,665</u>		<u>38,701</u>						

Note:

- (a) To eliminate the impact of share-based awards as measured using the fair value method.
- (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.