

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

	Three Months Ended		
	Mar. 31, 2018	Dec. 31, 2017	Mar. 31, 2017
Revenues:			
Online advertising			
Brand advertising	\$ 56,254	\$ 71,751	\$ 81,412
Search and search-related advertising	220,301	247,054	142,035
Subtotal	<u>276,555</u>	<u>318,805</u>	<u>223,447</u>
Online games	105,461	109,383	85,325
Others	72,979	81,442	65,331
Total revenues	<u>454,995</u>	<u>509,630</u>	<u>374,103</u>
Cost of revenues:			
Online advertising			
Brand advertising (includes stock-based compensation expense of \$-657, \$-1,034, and \$159, respectively)	50,611	82,932	80,197
Search and search-related (includes stock-based compensation expense of \$219, \$535, and \$3, respectively)	144,696	118,683	82,107
Subtotal	<u>195,307</u>	<u>201,615</u>	<u>162,304</u>
Online games (includes stock-based compensation expense of \$-12, \$1, and \$24, respectively)	17,119	17,097	16,505
Others	48,407	56,987	40,070
Total cost of revenues	<u>260,833</u>	<u>275,699</u>	<u>218,879</u>
Gross profit	194,162	233,931	155,224
Operating expenses:			
Product development (includes stock-based compensation expense of \$715, \$14,048, and \$2,327, respectively)	111,543	122,767	84,098
Sales and marketing (includes stock-based compensation expense of \$-89, \$3,976, and \$665, respectively)	90,273	116,179	90,086
General and administrative (includes stock-based compensation expense of \$-2,520, \$1,486, and \$4,051, respectively)	23,836	35,829	28,350
Total operating expenses	<u>225,652</u>	<u>274,775</u>	<u>202,534</u>
Operating loss	(31,490)	(40,844)	(47,310)
Other income	12,281	4,321	4,099
Interest income	7,808	7,357	4,471
Interest expense	(3,081)	(2,567)	(175)
Exchange difference	(9,340)	(4,059)	(766)
Loss before income tax expense	<u>(23,822)</u>	<u>(35,792)</u>	<u>(39,681)</u>
Income tax expense	63,379	233,785	10,672
Net loss	<u>(87,201)</u>	<u>(269,577)</u>	<u>(50,353)</u>
Less: Net income attributable to the noncontrolling interest shareholders	5,617	24,558	17,895
Net loss attributable to Sohu.com Inc.	<u>(92,818)</u>	<u>(294,135)</u>	<u>(68,248)</u>
Basic net loss per share attributable to Sohu.com Inc.	\$ (2.39)	\$ (7.56)	\$ (1.76)
Shares used in computing basic net loss per share attributable to Sohu.com Inc.	<u>38,904</u>	<u>38,888</u>	<u>38,811</u>
Diluted net loss per share attributable to Sohu.com Inc.	\$ (2.39)	\$ (7.57)	\$ (1.77)
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.	<u>38,904</u>	<u>38,888</u>	<u>38,811</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 Mar. 31, 2018			Three Months Ended Dec. 31, 2017			Three Months Ended Mar. 31, 2017		
	GAAP	Non-GAAP Adjustments ¹	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 5,643	(657)	(a) \$ 4,986	\$ (11,181)	(1,034)	(a) \$ (12,215)	\$ 1,215	159	(a) \$ 1,374
Brand advertising gross margin	10%		9%	-16%		-17%	1%		2%
Search and search-related advertising gross profit	\$ 75,605	219	(a) \$ 75,824	\$ 128,371	535	(a) \$ 128,906	\$ 59,928	3	(a) \$ 59,931
Search and search-related advertising gross margin	34%		34%	52%		52%	42%		42%
Online advertising gross profit	\$ 81,248	(438)	(a) \$ 80,810	\$ 117,190	(499)	(a) \$ 116,691	\$ 61,143	162	(a) \$ 61,305
Online advertising gross margin	29%		29%	37%		37%	27%		27%
Online games gross profit	\$ 88,342	(12)	(a) \$ 88,330	\$ 92,286	1	(a) \$ 92,287	\$ 68,820	24	(a) \$ 68,844
Online games gross margin	84%		84%	84%		84%	81%		81%
Others gross profit	\$ 24,572	-	(a) \$ 24,572	\$ 24,455	-	(a) \$ 24,455	\$ 25,261	-	(a) \$ 25,261
Others gross margin	34%		34%	30%		30%	39%		39%
Gross profit	\$ 194,162	(450)	(a) \$ 193,712	\$ 233,931	(498)	(a) \$ 233,433	\$ 155,224	186	(a) \$ 155,410
Gross margin	43%		43%	46%		46%	41%		42%

¹ Above Non-GAAP adjustment does not have impact on income tax expense.

Operating expenses	\$	<u>225,652</u>	\$	<u>1,894</u>	(a)	\$	<u>227,546</u>	\$	<u>274,775</u>	\$	<u>(19,510)</u>	(a)	\$	<u>255,265</u>	\$	<u>202,534</u>	\$	<u>(7,043)</u>	(a)	\$	<u>195,491</u>
Operating loss	\$	<u>(31,490)</u>	\$	<u>(2,344)</u>	(a)	\$	<u>(33,834)</u>	\$	<u>(40,844)</u>	\$	<u>19,012</u>	(a)	\$	<u>(21,832)</u>	\$	<u>(47,310)</u>	\$	<u>7,229</u>	(a)	\$	<u>(40,081)</u>
Operating margin		<u>-7%</u>		<u>(2,344)</u>			<u>-7%</u>		<u>-8%</u>		<u>19,012</u>			<u>-4%</u>		<u>-13%</u>		<u>7,229</u>			<u>-11%</u>
Income tax expense	\$	<u>(63,379)</u>	\$	<u>-</u>		\$	<u>(63,379)</u>	\$	<u>(233,785)</u>	\$	<u>214,819</u>		\$	<u>(18,966)</u>	\$	<u>10,672</u>	\$	<u>-</u>	(a)	\$	<u>10,672</u>
Net loss before non-controlling interest	\$	<u>(87,201)</u>	\$	<u>(2,344)</u>	(a)	\$	<u>(89,545)</u>	\$	<u>(269,577)</u>	\$	<u>233,831</u>	(a)	\$	<u>(35,746)</u>	\$	<u>(50,353)</u>	\$	<u>7,229</u>	(a)	\$	<u>(43,124)</u>
Net loss attributable to Sohu.com Inc. for diluted net loss per share	\$	<u>(92,925)</u>	\$	<u>(4,446)</u>			<u>(97,371)</u>	\$	<u>(294,543)</u>	\$	<u>216,286</u>			<u>(78,257)</u>	\$	<u>(68,664)</u>	\$	<u>927</u>		\$	<u>(67,737)</u>
				<u>(2,344)</u>	(a)				<u>19,012</u>	(a)						<u>7,229</u>	(a)				
				<u>(2,102)</u>	(b)				<u>(17,545)</u>	(b)						<u>(6,302)</u>	(b)				
				<u>-</u>					<u>214,819</u>	(c)						<u>-</u>					
Diluted net loss per share attributable to Sohu.com Inc.	\$	<u>(2.39)</u>					<u>(2.50)</u>	\$	<u>(7.57)</u>					<u>(2.01)</u>	\$	<u>(1.77)</u>				\$	<u>(1.75)</u>
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.		<u>38,904</u>					<u>38,904</u>		<u>38,888</u>					<u>38,888</u>		<u>38,811</u>					<u>38,811</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 attributable to the above non-GAAP adjustments.
- (c) To adjust for one-time effect of the U.S. Tax Reform.