

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

	Three Months Ended		
	Sep. 30, 2019	Jun. 30, 2019	Sep. 30, 2018
Revenues:			
Online advertising			
Brand advertising	\$ 46,323	\$ 43,958	\$ 56,958
Search and search-related advertising	288,198	275,942	255,130
Subtotal	<u>334,521</u>	<u>319,900</u>	<u>312,088</u>
Online games	108,012	102,147	95,971
Others	39,750	40,199	35,951
Total revenues	<u>482,283</u>	<u>462,246</u>	<u>444,010</u>
Cost of revenues:			
Online advertising			
Brand advertising (includes stock-based compensation expense of \$4, \$-22, and \$-14, respectively)	31,992	31,432	44,058
Search and search-related (includes stock-based compensation expense of \$64, \$127, and \$235 respectively)	178,343	182,593	167,664
Subtotal	<u>210,335</u>	<u>214,025</u>	<u>211,722</u>
Online games (includes stock-based compensation expense of \$0, \$-17, and \$-3, respectively)	23,286	18,163	14,902
Others	17,680	19,624	12,086
Total cost of revenues	<u>251,301</u>	<u>251,812</u>	<u>238,710</u>
Gross profit	230,982	210,434	205,300
Operating expenses:			
Product development (includes stock-based compensation expense of \$2,863, \$3,587, and \$2,362, respectively)	104,207	109,048	107,164
Sales and marketing (includes stock-based compensation expense of \$1,126, \$1,355, and \$201, respectively)	91,335	90,580	100,496
General and administrative (includes stock-based compensation expense of \$316, \$-572, and \$-1,062, respectively)	23,797	21,987	33,980
Total operating expenses	<u>219,339</u>	<u>221,615</u>	<u>241,640</u>
Operating profit/(loss)	11,643	(11,181)	(36,340)
Other income	15,832	5,684	28,790
Interest income	1,959	3,286	4,656
Interest expense	(2,631)	(3,737)	(6,174)
Exchange difference	4,714	3,551	7,970
Income/(loss) before income tax expense	31,517	(2,397)	(1,098)
Income tax expense	17,011	3,941	(13,145)
Income from continuing operations	14,506	(6,338)	12,047
Net loss from discontinued operations	(2,706)	(27,037)	(12,443)
Net income/(loss)	<u>11,800</u>	<u>(33,375)</u>	<u>(396)</u>
Less: Net income from continuing operations attributable to the noncontrolling interest shareholders	35,615	28,467	37,926
Less: Net income from discontinued operations attributable to the noncontrolling interest shareholders	(896)	(8,949)	(4,056)
Net loss from continuing operations attributable to Sohu.com Limited	(21,109)	(34,805)	(25,879)
Net loss from discontinued operations attributable to Sohu.com Limited	(1,810)	(18,088)	(8,387)
Net loss attributable to Sohu.com Limited	<u>(22,919)</u>	<u>(52,893)</u>	<u>(34,266)</u>
Basic net loss from continuing operations per ADS attributable to Sohu.com Limited	(0.54)	(0.89)	(0.66)
Basic net loss from discontinued operations per ADS attributable to Sohu.com Limited	(0.04)	(0.46)	(0.22)
Basic net loss per ADS attributable to Sohu.com Limited	\$ (0.58)	\$ (1.35)	\$ (0.88)
ADS used in computing basic net loss per ADS attributable to Sohu.com Limited	39,254	39,244	38,936
Diluted net loss from continuing operations per ADS attributable to Sohu.com Limited	(0.55)	(0.89)	(0.68)
Diluted net loss from discontinued operations per ADS attributable to Sohu.com Limited	(0.04)	(0.46)	(0.21)
Diluted net loss per ADS attributable to Sohu.com Limited	\$ (0.59)	\$ (1.35)	\$ (0.89)

ADS used in computing diluted net loss per ADS
attributable to Sohu.com Limited

39,254

39,244

38,936

SOHU.COM LIMITED

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

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended Sep. 30, 2019			Three Months Ended Jun. 30, 2019			Three Months Ended Sep. 30, 2018		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 14,331	\$ 4	(a) \$ 14,335	\$ 12,526	\$ (22)	(a) \$ 12,504	\$ 12,900	\$ (14)	(a) \$ 12,886
Brand advertising gross margin	31%		31%	28%		28%	23%		23%
Search and search-related advertising gross profit	\$ 109,855	\$ 64	(a) \$ 109,919	\$ 93,349	\$ 127	(a) \$ 93,476	\$ 87,466	\$ 235	(a) \$ 87,701
Search and search-related advertising gross margin	38%		38%	34%		34%	34%		34%
Online advertising gross profit	\$ 124,186	\$ 68	(a) \$ 124,254	\$ 105,875	\$ 105	(a) \$ 105,980	\$ 100,366	\$ 221	(a) \$ 100,587
Online advertising gross margin	37%		37%	33%		33%	32%		32%
Online games gross profit	\$ 84,726	\$ -	(a) \$ 84,726	\$ 83,984	\$ (17)	(a) \$ 83,967	\$ 81,069	\$ (3)	(a) \$ 81,066
Online games gross margin	78%		78%	82%		82%	84%		84%
Others gross profit	\$ 22,070	\$ -	(a) \$ 22,070	\$ 20,575	\$ -	(a) \$ 20,575	\$ 23,865	\$ -	(a) \$ 23,865
Others gross margin	56%		56%	51%		51%	66%		66%
Gross profit	\$ 230,982	\$ 68	(a) \$ 231,050	\$ 210,434	\$ 88	(a) \$ 210,522	\$ 205,300	\$ 218	(a) \$ 205,518
Gross margin	48%		48%	46%		46%	46%		46%
Operating expenses	\$ 219,339	\$ (4,306)	(a) \$ 215,033	\$ 221,615	\$ (4,370)	(a) \$ 217,245	\$ 241,640	\$ (1,501)	(a) \$ 240,139
Operating profit/(loss)	\$ 11,643	\$ 4,374	(a) \$ 16,017	\$ (11,181)	\$ 4,458	(a) \$ (6,723)	\$ (36,340)	\$ 1,719	(a) \$ (34,621)

Operating margin	<u>2%</u>		<u>3%</u>		<u>-2%</u>		<u>-1%</u>		<u>-8%</u>		<u>-8%</u>							
Income tax expense	\$	<u>(17,011)</u>	\$	<u>2,468</u>	(c,d)\$	<u>(14,543)</u>	\$	<u>(3,941)</u>	\$	<u>1,566</u>	(c,d)\$	<u>(2,375)</u>	\$	<u>13,145</u>	\$	<u>(1,286)</u>	\$	<u>11,859</u>
				4,374	(a)			4,458	(a)					1,719	(a)			
				448	(c)			794	(c)					3,861	(c)			
				2,618	(d)			1,831	(d)					-				
Net income/(loss) before non-controlling interest	\$	<u>14,506</u>		<u>7,440</u>		<u>21,946</u>	\$	<u>(6,338)</u>		<u>7,083</u>		<u>745</u>	\$	<u>12,047</u>	\$	<u>5,580</u>	\$	<u>17,627</u>
				4,374	(a)			4,458	(a)					1,719	(a)			
				(2,863)	(b)			(3,733)	(b)					(2,583)	(b)			
				448	(c)			794	(c)					3,861	(c)			
				2,618	(d)			1,831	(d)					-				
Net loss from continuing operations attributable to Sohu.com Limited for diluted net loss per ADS	\$	<u>(21,400)</u>		<u>4,577</u>		<u>(16,823)</u>	\$	<u>(34,932)</u>		<u>3,350</u>		<u>(31,582)</u>	\$	<u>(26,361)</u>	\$	<u>2,997</u>		<u>(23,364)</u>
Net loss from discontinued operations attributable to Sohu.com Limited for diluted net loss per ADS		<u>(1,807)</u>		<u>-</u>		<u>(1,807)</u>		<u>(18,062)</u>		<u>-</u>		<u>(18,062)</u>		<u>(8,324)</u>		<u>12</u>		<u>(8,312)</u>
Net loss attributable to Sohu.com Limited for diluted net loss per ADS		<u>(23,207)</u>		<u>4,577</u>		<u>(18,630)</u>		<u>(52,994)</u>		<u>3,350</u>		<u>(49,644)</u>		<u>(34,685)</u>		<u>3,009</u>		<u>(31,676)</u>
Diluted net loss from continuing operations per ADS attributable to Sohu.com Limited	\$	<u>(0.55)</u>				<u>(0.43)</u>	\$	<u>(0.89)</u>				<u>(0.80)</u>	\$	<u>(0.68)</u>				<u>(0.60)</u>
Diluted net loss from discontinued operations per ADS attributable to Sohu.com Limited		<u>(0.04)</u>				<u>(0.04)</u>		<u>(0.46)</u>				<u>(0.46)</u>		<u>(0.21)</u>				<u>(0.21)</u>
Diluted net loss per ADS attributable to Sohu.com Limited		<u>(0.59)</u>				<u>(0.47)</u>		<u>(1.35)</u>				<u>(1.27)</u>		<u>(0.89)</u>				<u>(0.81)</u>
Shares used in computing diluted net loss per ADS		<u>39,254</u>				<u>39,254</u>		<u>39,244</u>				<u>39,244</u>		<u>38,936</u>				<u>38,936</u>

attributable to Sohu.com
Limited

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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.