

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

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2020	Sep. 30, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Revenues:					
Brand advertising	\$ 41,810	\$ 41,094	\$ 41,640	\$ 146,526	\$ 175,056
Online games	196,063	101,324	131,689	536,684	440,902
Others	15,362	15,476	15,376	66,680	57,845
Total revenues	<u>253,235</u>	<u>157,894</u>	<u>188,705</u>	<u>749,890</u>	<u>673,803</u>
Cost of revenues:					
Brand advertising (includes share-based compensation expense of \$-59, \$240, \$2, \$177, and \$22, respectively)	28,836	28,459	28,677	105,604	126,406
Online games (includes share-based compensation expense of \$79, \$151, \$137, \$543, and \$120, respectively)	19,154	20,024	33,181	91,526	88,992
Others	5,086	5,075	6,928	20,307	28,249
Total cost of revenues	<u>53,076</u>	<u>53,558</u>	<u>68,786</u>	<u>217,437</u>	<u>243,647</u>
Gross profit	200,159	104,336	119,919	532,453	430,156
Operating expenses:					
Product development (includes share-based compensation expense of \$966, \$2,469, \$1,992, \$7,326, and \$1,365, respectively)	65,671	59,532	58,316	241,941	234,852
Sales and marketing (includes share-based compensation expense of \$-95, \$496, \$1, \$458, and \$-327, respectively)	51,945	40,250	43,789	159,787	204,665
General and administrative (includes share-based compensation expense of \$459, \$2,516, \$1,135, \$5,976, and \$1,170, respectively)	15,696	15,176	15,475	57,354	54,591
Goodwill impairment and impairment of intangibles via acquisitions of businesses	-	-	-	-	7,245
Total operating expenses	<u>133,312</u>	<u>114,958</u>	<u>117,580</u>	<u>459,082</u>	<u>501,353</u>
Operating profit/(loss)	66,847	(10,622)	2,339	73,371	(71,197)
Other income/(expense), net	1,738	7,859	(12,563)	25,993	7,963
Interest income	2,670	1,933	969	7,369	6,103
Interest expense	(1,176)	(1,352)	(2,501)	(6,234)	(14,370)
Exchange difference	(2,080)	(2,043)	(785)	(3,800)	1,430
Income/(loss) before income tax expense	<u>67,999</u>	<u>(4,225)</u>	<u>(12,541)</u>	<u>96,699</u>	<u>(70,071)</u>
Income tax expense/(benefit)	21,416	11,082	(2,908)	133,226	28,428
Net income/(loss) from continuing operations	<u>46,583</u>	<u>(15,307)</u>	<u>(9,633)</u>	<u>(36,527)</u>	<u>(98,499)</u>
Net income/(loss) from discontinued operations, net of tax ⁶	<u>(9,212)</u>	<u>(42,181)</u>	<u>34,989</u>	<u>(91,793)</u>	<u>55,108</u>
Net income/(loss)	<u>37,371</u>	<u>(57,488)</u>	<u>25,356</u>	<u>(128,320)</u>	<u>(43,391)</u>
Less: Net income/(loss) from continuing operations attributable to the noncontrolling interest shareholders	2	(50)	19,429	18,448	58,223
Less: Net income/(loss) from discontinued operations attributable to the noncontrolling interest shareholders	<u>(6,119)</u>	<u>(27,874)</u>	<u>23,022</u>	<u>(60,656)</u>	<u>47,722</u>
Net income/(loss) from continuing operations attributable to Sohu.com Limited	46,581	(15,257)	(29,062)	(54,975)	(156,722)
Net income/(loss) from discontinued operations attributable to Sohu.com Limited	<u>(3,093)</u>	<u>(14,307)</u>	<u>11,967</u>	<u>(31,137)</u>	<u>7,386</u>
Net income/(loss) attributable to Sohu.com Limited	<u>43,488</u>	<u>(29,564)</u>	<u>(17,095)</u>	<u>(86,112)</u>	<u>(149,336)</u>
Basic net income/(loss) from continuing operations per ADS attributable to Sohu.com Limited	\$ 1.18	\$ (0.39)	\$ (0.74)	\$ (1.39)	\$ (3.99)
Basic net income/(loss) from discontinued operations per ADS attributable to Sohu.com Limited	\$ (0.08)	\$ (0.36)	\$ 0.30	\$ (0.79)	\$ 0.19
Basic net income/(loss) per ADS attributable to Sohu.com Limited	<u>\$ 1.10</u>	<u>\$ (0.75)</u>	<u>\$ (0.44)</u>	<u>\$ (2.18)</u>	<u>\$ (3.80)</u>
ADS used in computing basic net income/(loss) per ADS attributable to Sohu.com Limited	<u>39,508</u>	<u>39,286</u>	<u>39,263</u>	<u>39,452</u>	<u>39,249</u>
Diluted net income/(loss) from continuing operations per ADS attributable to Sohu.com Limited	\$ 1.18	\$ (0.39)	\$ (0.75)	\$ (1.40)	\$ (4.01)
Diluted net income/(loss) from discontinued operations per ADS attributable to Sohu.com Limited	\$ (0.08)	\$ (0.36)	\$ 0.30	\$ (0.79)	\$ 0.18
Diluted net income/(loss) per ADS attributable to Sohu.com Limited	<u>\$ 1.10</u>	<u>\$ (0.75)</u>	<u>\$ (0.45)</u>	<u>\$ (2.19)</u>	<u>\$ (3.83)</u>
ADS used in computing diluted net income/(loss) per ADS attributable to Sohu.com Limited	<u>39,508</u>	<u>39,286</u>	<u>39,263</u>	<u>39,452</u>	<u>39,249</u>

⁶ On September 29, 2020, the Company entered into a Share Purchase Agreement with Tencent's subsidiary TitanSupernova Limited ("Parent"), pursuant to which the Company's wholly-owned subsidiary Sohu.com (Search) Limited agreed to sell all of the Sogou Class A ordinary shares and Sogou Class B ordinary shares owned by it to Parent at a purchase price of \$9.00 per share. In view of the Share Purchase Agreement, the results of operations for Sogou have been excluded from the Company's results from continuing operations in the condensed consolidated statements of operations for the third quarter and are presented in separate line items as discontinued operations. Retrospective adjustments to the historical statements have been made in order to provide a consistent basis of comparison. Unless indicated otherwise, results presented are related to continuing operations only.

SOHU.COM LIMITED
RECONCILIATIONS OF NON-GAAP RESULTS OF OPERATIONS MEASURES TO THE NEAREST COMPARABLE GAAP MEASURES
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended Dec. 31, 2020			Three Months Ended Sep. 30, 2020			Three Months Ended Dec. 31, 2019		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 12,974	\$(59) (a)	\$ 12,915	\$ 12,635	\$ 240 (a)	\$ 12,875	\$ 12,963	\$ 2 (a)	\$ 12,965
Brand advertising gross margin	<u>31%</u>		<u>31%</u>	<u>31%</u>		<u>31%</u>	<u>31%</u>		<u>31%</u>
Online games gross profit	\$ 176,909	\$ 79 (a)	\$ 176,988	\$ 81,300	\$ 151 (a)	\$ 81,451	\$ 98,508	\$ 137 (a)	\$ 98,645
Online games gross margin	<u>90%</u>		<u>90%</u>	<u>80%</u>		<u>80%</u>	<u>75%</u>		<u>75%</u>
Others gross profit	\$ 10,276	\$ - (a)	\$ 10,276	\$ 10,401	\$ - (a)	\$ 10,401	\$ 8,448	\$ - (a)	\$ 8,448
Others gross margin	<u>67%</u>		<u>67%</u>	<u>67%</u>		<u>67%</u>	<u>55%</u>		<u>55%</u>
Gross profit	\$ 200,159	\$ 20 (a)	\$ 200,179	\$ 104,336	\$ 391 (a)	\$ 104,727	\$ 119,919	\$ 139 (a)	\$ 120,058
Gross margin	<u>79%</u>		<u>79%</u>	<u>66%</u>		<u>66%</u>	<u>64%</u>		<u>64%</u>
Operating expenses	\$ 133,312	\$(1,330) (a)	\$ 131,982	\$ 114,958	\$(5,481) (a)	\$ 109,477	\$ 117,580	\$(3,128) (a)	\$ 114,452
Operating profit/(loss)	\$ 66,847	\$ 1,350 (a)	\$ 68,197	\$ (10,622)	\$ 5,872 (a)	\$ (4,750)	\$ 2,339	\$ 3,267 (a)	\$ 5,606
Operating margin	<u>26%</u>		<u>27%</u>	<u>-7%</u>		<u>-3%</u>	<u>1%</u>		<u>3%</u>
Income tax expense/(benefit)	\$ 21,416	\$(8) (c,d)	\$ 21,408	\$ 11,082	\$(642) (c,d)	\$ 10,440	\$ (2,908)	\$(2,737) (c,d)	\$ (5,645)
Net income/(loss) before non-controlling interest	\$ 46,583	\$ 6,087	\$ 52,670	\$ (15,307)	\$ 8,630	\$ (6,677)	\$ (9,633)	\$ 25,838	\$ 16,205
Net income/(loss) from continuing operations attributable to Sohu.com Limited for diluted net	\$ 46,581	\$ 6,087	\$ 52,668	\$ (15,257)	\$ 8,630	\$ (6,627)	\$ (29,299)	\$ 23,150	\$ (6,149)
Net income/(loss) from discontinued operations attributable to Sohu.com Limited for diluted net loss per ADS ¹⁰	\$ (3,093)	\$ 425	\$ (2,668)	\$ (14,307)	\$ 1,462	\$ (12,845)	\$ 11,686	\$ 1,309	\$ 12,995
Net income/(loss) attributable to Sohu.com Limited for diluted net loss per ADS	\$ 43,488	\$ 6,512	\$ 50,000	\$ (29,564)	\$ 10,092	\$ (19,472)	\$ (17,613)	\$ 24,459	\$ 6,846
Diluted net income/(loss) from continuing operations per ADS attributable to Sohu.com Limited	\$ 1.18		\$ 1.33	\$ (0.39)		\$ (0.17)	\$ (0.75)		\$ (0.16)
Diluted net income/(loss) from discontinued operations per ADS attributable to Sohu.com Limited	\$ (0.08)		\$ (0.06)	\$ (0.36)		\$ (0.33)	\$ 0.30		\$ 0.33
Diluted net income/(loss) per ADS attributable to Sohu.com Shares used in computing diluted net income/(loss) per ADS attributable to Sohu.com Limited	\$ 1.10		\$ 1.27	\$ (0.75)		\$ (0.50)	\$ (0.45)		\$ 0.17
Diluted net income/(loss) per ADS attributable to Sohu.com Limited	<u>39,508</u>		<u>39,508</u>	<u>39,286</u>		<u>39,286</u>	<u>39,263</u>		<u>39,396</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 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.
- (e) To adjust for the one-time impairment charge recognized for an investment unrelated to the Company's core business

¹⁰ On September 29, 2020, the Company entered into a Share Purchase Agreement with Tencent's subsidiary TitanSupernova Limited ("Parent"), pursuant to which the Company's wholly-owned subsidiary Sohu.com (Search) Limited has agreed to sell all of the Sogou Class A ordinary share and Sogou Class B ordinary shares owned by it to Parent at a purchase price of \$9.00 per share. In view of the Share Purchase Agreement, the results of operations for Sogou have been excluded from the Company's results from continuing operations in the condensed consolidated statements of operations for the third quarter and are presented in separate line items as discontinued operations. Retrospective adjustments to the historical statements have been made in order to provide a consistent basis of comparison. Unless indicated otherwise, results presented are related to continuing operations only.

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	Twelve Months Ended Dec. 31, 2020			Twelve Months Ended Dec. 31, 2019		
	GAAP	Non-GAAP Adjustment	Non- GAAP	GAAP	Non-GAAP Adjustment	Non- GAAP
Brand advertising gross profit	\$ 40,922	\$ 177 (a)	\$ 41,099	\$ 48,650	\$ 22 (a)	\$ 48,672
Brand advertising gross margin	<u>28%</u>		<u>28%</u>	<u>28%</u>		<u>28%</u>
Online games gross profit	\$ 445,158	\$ 543 (a)	\$ 445,701	\$ 351,910	\$ 120 (a)	\$ 352,030
Online games gross margin	<u>83%</u>		<u>83%</u>	<u>80%</u>		<u>80%</u>
Others gross profit	\$ 46,373	\$ - (a)	\$ 46,373	\$ 29,596	\$ - (a)	\$ 29,596
Others gross margin	<u>70%</u>		<u>70%</u>	<u>51%</u>		<u>51%</u>
Gross profit	\$ 532,453	\$ 720 (a)	\$ 533,173	\$ 430,156	\$ 142 (a)	\$ 430,298
Gross margin	<u>71%</u>		<u>71%</u>	<u>64%</u>		<u>64%</u>
Operating expenses	\$ 459,082	\$ (13,760) (a)	\$ 445,322	\$ 501,353	\$ (2,208) (a)	\$ 499,145
Operating profit/(loss)	\$ 73,371	\$ 14,480 (a)	\$ 87,851	\$ (71,197)	\$ 2,350 (a)	\$ (68,847)
Operating margin	<u>10%</u>		<u>12%</u>	<u>-11%</u>		<u>-10%</u>
Income tax expense ¹¹	\$ 133,226	\$ (5,985) (c,d)	\$ 127,241	\$ 28,428	\$ (8,549) (c,d)	\$ 19,879
		14,480 (a)		2,350 (a)		
		660 (c)		(1,992) (c)		
		6,205 (d)		7,887 (d)		
		-		23,154 (e)		
Net loss before non-controlling interest	<u>(36,527)</u>	<u>21,345</u>	<u>(15,182)</u>	<u>(98,499)</u>	<u>31,399</u>	<u>(67,100)</u>
		14,480 (a)		2,350 (a)		
		(2,868) (b)		(2,069) (b)		
		660 (c)		(1,992) (c)		
		6,205 (d)		7,887 (d)		
		-		23,154 (e)		
Net loss from continuing operations attributable to Sohu.com Limited for diluted net loss per ADS	\$ (55,365)	\$ 18,477	\$ (36,888)	\$ (157,282)	\$ 29,330	\$ (127,952)
Net income/(loss) from discontinued operations attributable to Sohu.com Limited for diluted net loss per ADS ¹²	\$ (31,139)	\$ 3,048	\$ (28,091)	\$ 6,833	\$ 5,159	\$ 11,992
Net loss attributable to Sohu.com Limited for diluted net loss per ADS	<u>(86,504)</u>	<u>21,525</u>	<u>(64,979)</u>	<u>(150,449)</u>	<u>34,489</u>	<u>(115,960)</u>
Diluted net loss from continuing operations per ADS attributable to Sohu.com Limited	<u>(1.40)</u>		<u>(0.94)</u>	<u>(4.01)</u>		<u>(3.26)</u>
Diluted net income/ (loss) from discontinued operations per ADS attributable to Sohu.com Limited	<u>(0.79)</u>		<u>(0.71)</u>	<u>0.18</u>		<u>0.31</u>
Diluted net loss per ADS attributable to Sohu.com Limited	<u>(2.19)</u>		<u>(1.65)</u>	<u>(3.83)</u>		<u>(2.95)</u>
ADS used in computing diluted net income/(loss) per ADS attributable to Sohu.com Limited	<u>39,452</u>		<u>39,452</u>	<u>39,249</u>		<u>39,249</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
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(d) To adjust for the effect of the U.S. TCJA.
(e) To adjust for the one-time impairment charge recognized for an investment unrelated to the Company's core businesses

¹¹ Following completion of the Changyou privatization, Changyou changed its policy for its PRC subsidiaries with respect to distribution of cash dividends. As a result, Changyou recognized an additional accrual of withholding income tax of US\$88 million in the second quarter of 2020.

¹² On September 29, 2020, the Company entered into a Share Purchase Agreement with Tencent's subsidiary TitanSupernova Limited ("Parent"), pursuant to which the Company's wholly-owned subsidiary Sohu.com (Search) Limited has agreed to sell all of the Sogou Class A ordinary share and Sogou Class B ordinary shares owned by it to Parent at a purchase price of \$9.00 per share. In view of the Share Purchase Agreement, the results of operations for Sogou have been excluded from the Company's results from continuing operations in the condensed consolidated statements of operations for the third quarter and are presented in separate line items as discontinued operations. Retrospective adjustments to the historical statements have been made in order to provide a consistent basis of comparison. Unless indicated otherwise, results presented are related to continuing operations only.