

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

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2019	Sep. 30, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Revenues:					
Online advertising					
Brand advertising	\$ 41,599	\$ 46,323	\$ 57,222	\$ 174,861	\$ 231,945
Search and search-related advertising	274,590	288,198	276,666	1,072,860	1,022,456
Subtotal	<u>316,189</u>	<u>334,521</u>	<u>333,888</u>	<u>1,247,721</u>	<u>1,254,401</u>
Online games	131,689	108,012	94,106	440,902	389,788
Others	41,769	39,750	36,287	156,824	168,638
Total revenues	<u>489,647</u>	<u>482,283</u>	<u>464,281</u>	<u>1,845,447</u>	<u>1,812,827</u>
Cost of revenues:					
Online advertising					
Brand advertising (includes stock-based compensation expense of \$2, \$4, \$-34, \$22 and \$-707, respectively)	28,677	31,992	42,485	126,406	184,473
Search and search-related (includes stock-based compensation expense of \$256, \$64, \$-48, \$474 and \$669, respectively)	163,384	178,343	183,678	703,144	664,164
Subtotal	<u>192,061</u>	<u>210,335</u>	<u>226,163</u>	<u>829,550</u>	<u>848,637</u>
Online games (includes stock-based compensation expense of \$137, \$0, \$7, \$120 and \$-31, respectively)	33,181	23,286	14,499	88,992	60,981
Others	12,198	17,680	12,113	63,553	72,868
Total cost of revenues	<u>237,440</u>	<u>251,301</u>	<u>252,775</u>	<u>982,095</u>	<u>982,486</u>
Gross profit	252,207	230,982	211,506	863,352	830,341
Operating expenses:					
Product development (includes stock-based compensation expense of \$4,594, \$2,863, \$919, \$12,063 and \$6,132, respectively)	105,425	104,207	108,611	419,114	441,161
Sales and marketing (includes stock-based compensation expense of \$797, \$1,126, \$216, \$3,398 and \$405, respectively)	78,375	91,335	97,422	340,840	380,290
General and administrative (includes stock-based compensation expense of \$1,518, \$317, \$470, \$2,174 and \$-4,372, respectively)	26,901	23,797	25,119	95,773	108,764
Goodwill impairment and impairment of intangibles via acquisitions of businesses	-	-	16,369 ¹	7,245	16,369
Total operating expenses	<u>210,701</u>	<u>219,339</u>	<u>247,521</u>	<u>862,972</u>	<u>946,584</u>
Operating profit/(loss)	41,506	11,643	(36,015)	380	(116,243)
Other income/(expense)	(13,787) ²	15,832	13,073	21,948	64,724
Interest income	1,508	1,959	6,455	10,546	24,074
Interest expense	(2,501)	(2,631)	(5,279)	(14,370)	(17,538)
Exchange difference	(2,324)	4,714	(378)	3,279	9,026
Income/(Loss) before income tax expense	24,402	31,517	(22,144)	21,783	(35,957)
Income tax expense/(benefit)	(954)	17,011	(69,557)	31,176	(13,433)
Income/(loss) from continuing operations	<u>25,356</u>	<u>14,506</u>	<u>47,413</u>	<u>(9,393)</u>	<u>(22,524)</u>
Net loss from discontinued operations	-	(2,706)	(12,000)	(33,998)	(44,835)
Net income/(loss)	<u>25,356</u>	<u>11,800</u>	<u>35,413</u>	<u>(43,391)</u>	<u>(67,359)</u>
Less: Net income from continuing operations attributable to the noncontrolling interest shareholders	42,451	35,615	24,685	117,177	107,318
Less: Net loss from discontinued operations attributable to the noncontrolling interest shareholders	-	(896)	(3,912)	(11,232)	(14,595)
Net income/(loss) from continuing operations attributable to Sohu.com Limited	(17,095)	(21,109)	22,728	(126,570)	(129,842)
Net loss from discontinued operations attributable to Sohu.com Limited	-	(1,810)	(8,088)	(22,766)	(30,240)
Net income/(loss) attributable to Sohu.com Limited	<u>(17,095)</u>	<u>(22,919)</u>	<u>14,640</u>	<u>(149,336)</u>	<u>(160,082)</u>
Basic net income/(loss) from continuing operations per ADS attributable to Sohu.com Limited	<u>(0.44)</u>	<u>(0.54)</u>	<u>0.58</u>	<u>(3.22)</u>	<u>(3.33)</u>
Basic net loss from discontinued operations per ADS attributable to Sohu.com Limited	<u>-</u>	<u>(0.04)</u>	<u>(0.21)</u>	<u>(0.58)</u>	<u>(0.78)</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.

² Other expenses in the fourth quarter of 2019 mainly included an impairment charge of approximately US\$23 million recognized for the quarter for an investment unrelated to the Company's core businesses, and an impairment loss of approximately US\$9 million on certain Sogou equity investments.

Basic net income/(loss) per ADS attributable to Sohu.com Limited	<u>\$ (0.44)</u>	<u>\$ (0.58)</u>	<u>\$ 0.37</u>	<u>\$ (3.80)</u>	<u>\$ (4.11)</u>
ADS used in computing basic net loss per ADS attributable to Sohu.com Limited	<u>39,263</u>	<u>39,254</u>	<u>39,069</u>	<u>39,249</u>	<u>38,959</u>
Diluted net income/(loss) from continuing operations per ADS attributable to Sohu.com Limited	<u>(0.45)</u>	<u>(0.55)</u>	<u>0.57</u>	<u>(3.25)</u>	<u>(3.36)</u>
Diluted net loss from discontinued operations per ADS attributable to Sohu.com Limited	<u>-</u>	<u>(0.04)</u>	<u>(0.20)</u>	<u>(0.58)</u>	<u>(0.77)</u>
Diluted net income/(loss) per ADS attributable to Sohu.com Limited	<u>\$ (0.45)</u>	<u>\$ (0.59)</u>	<u>\$ 0.37</u>	<u>\$ (3.83)</u>	<u>\$ (4.13)</u>
ADS used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>39,263</u>	<u>39,254</u>	<u>39,234</u>	<u>39,249</u>	<u>38,959</u>

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 Dec. 31, 2019			Three Months Ended Sep. 30, 2019			Three Months Ended Dec. 31, 2018		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 12,922	\$ 2	(a) \$ 12,924	\$ 14,331	\$ 4	(a) \$ 14,335	\$ 14,737	\$ (34)	(a) \$ 14,703
Brand advertising gross margin	31%		31%	31%		31%	26%		26%
Search and search-related advertising gross profit	\$ 111,206	\$ 256	(a) \$ 111,462	\$ 109,855	\$ 64	(a) \$ 109,919	\$ 92,988	\$ (48)	(a) \$ 92,940
Search and search-related advertising gross margin	40%		41%	38%		38%	34%		34%
Online advertising gross profit	\$ 124,128	\$ 258	(a) \$ 124,386	\$ 124,186	\$ 68	(a) \$ 124,254	\$ 107,725	\$ (82)	(a) \$ 107,643
Online advertising gross margin	39%		39%	37%		37%	32%		32%
Online games gross profit	\$ 98,508	\$ 137	(a) \$ 98,645	\$ 84,726	\$ -	(a) \$ 84,726	\$ 79,607	\$ 7	(a) \$ 79,614
Online games gross margin	75%		75%	78%		78%	85%		85%
Others gross profit	\$ 29,571	\$ -	(a) \$ 29,571	\$ 22,070	\$ -	(a) \$ 22,070	\$ 24,174	\$ -	(a) \$ 24,174
Others gross margin	71%		71%	56%		56%	67%		67%
Gross profit	\$ 252,207	\$ 395	(a) \$ 252,602	\$ 230,982	\$ 68	(a) \$ 231,050	\$ 211,506	\$ (75)	(a) \$ 211,431
Gross margin	52%		52%	48%		48%	46%		46%
Operating expenses	\$ 210,701	\$ (6,909)	(a) \$ 203,792	\$ 219,339	\$ (4,306)	(a) \$ 215,033	\$ 247,521	\$ (1,605)	(a) \$ 245,916
Operating profit/(loss)	\$ 41,506	\$ 7,304	(a) \$ 48,810	\$ 11,643	\$ 4,374	(a) \$ 16,017	\$ (36,015)	\$ 1,530	(a) \$ (34,485)

Operating margin		<u>8%</u>		<u>10%</u>	<u>2%</u>		<u>3%</u>	<u>-8%</u>		<u>-7%</u>										
Income tax expense	\$	<u>954</u>	\$	<u>2,737</u>	(c,d)	\$	<u>3,691</u>	\$	<u>(17,011)</u>	\$	<u>2,468</u>	(c,d)	\$	<u>(14,543)</u>	\$	<u>69,557</u>	\$	<u>(74,160)</u>	\$	<u>(4,603)</u>
				7,304	(a)		4,374	(a)		1,530	(a)									
				(2,490)	(c)		448	(c)		267	(c)									
				1,907	(d)		2,618	(d)		(74,071)	(d)									
				23,154	(e)		-			-										
Net income/(loss) before non-controlling interest	\$	<u>25,356</u>		<u>29,875</u>			<u>55,231</u>	\$	<u>14,506</u>		<u>7,440</u>		<u>21,946</u>	\$	<u>47,413</u>	\$	<u>(72,274)</u>	\$	<u>(24,861)</u>	
				7,304	(a)		4,374	(a)		1,530	(a)									
				(5,416)	(b)		(2,863)	(b)		(988)	(b)									
				(2,490)	(c)		448	(c)		267	(c)									
				1,907	(d)		2,618	(d)		(74,071)	(d)									
				23,154	(e)		-			-										
Net income/(loss) from continuing operations attributable to Sohu.com Limited for diluted net loss per ADS	\$	<u>(17,613)</u>		<u>24,459</u>			<u>6,846</u>	\$	<u>(21,400)</u>		<u>4,577</u>		<u>(16,823)</u>	\$	<u>22,539</u>	\$	<u>(73,262)</u>		<u>(50,723)</u>	
Net loss from discontinued operations attributable to Sohu.com Limited for diluted net loss per ADS		<u>-</u>		<u>-</u>			<u>-</u>		<u>(1,807)</u>		<u>-</u>		<u>(1,807)</u>		<u>(8,028)</u>		<u>12</u>		<u>(8,016)</u>	
Net income/(loss) attributable to Sohu.com Limited for diluted net loss per ADS		<u>(17,613)</u>		<u>24,459</u>			<u>6,846</u>		<u>(23,207)</u>		<u>4,577</u>		<u>(18,630)</u>		<u>14,511</u>		<u>(73,250)</u>		<u>(58,739)</u>	
Diluted net income/(loss) from continuing operations per ADS attributable to Sohu.com Limited	\$	<u>(0.45)</u>					<u>0.17</u>	\$	<u>(0.55)</u>				<u>(0.43)</u>	\$	<u>0.57</u>				<u>(1.30)</u>	
Diluted net loss from discontinued operations per ADS attributable to Sohu.com Limited		<u>-</u>					<u>-</u>		<u>(0.04)</u>				<u>(0.04)</u>		<u>(0.20)</u>				<u>(0.20)</u>	
Diluted net income/(loss) per ADS attributable to Sohu.com Limited		<u>(0.45)</u>					<u>0.17</u>		<u>(0.59)</u>				<u>(0.47)</u>		<u>0.37</u>				<u>(1.50)</u>	

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

39,263

39,396

39,254

39,254

39,234

39,069

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.
- (e) To adjust for a one-time impairment charge recognized for an investment unrelated to the Company's core businesses

SOHU.COM LIMITED

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

MEASURES

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Twelve Months Ended Dec. 31, 2019			Twelve Months Ended Dec. 31, 2018		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 48,455	\$ 22	\$ 48,477	\$ 47,472	\$ (707)	\$ 46,765
Brand advertising gross margin	28%		28%	20%		20%
Search and search-related advertising gross profit	\$ 369,716	\$ 474	\$ 370,190	\$ 358,292	\$ 669	\$ 358,961
Search and search-related advertising gross margin	34%		35%	35%		35%
Online advertising gross profit	\$ 418,171	\$ 496	\$ 418,667	\$ 405,764	\$ (38)	\$ 405,726
Online advertising gross margin	34%		34%	32%		32%
Online games gross profit	\$ 351,910	\$ 120	\$ 352,030	\$ 328,807	\$ (31)	\$ 328,776
Online games gross margin	80%		80%	84%		84%
Others gross profit	\$ 93,271	\$ -	\$ 93,271	\$ 95,770	\$ -	\$ 95,770
Others gross margin	59%		59%	57%		57%
Gross profit	\$ 863,352	\$ 616	\$ 863,968	\$ 830,341	\$ (69)	\$ 830,272
Gross margin	47%		47%	46%		46%
Operating expenses	\$ 862,972	\$ (17,635)	\$ 845,337	\$ 946,584	\$ (2,165)	\$ 944,419
Operating loss	\$ 380	\$ 18,251	\$ 18,631	\$ (116,243)	\$ 2,096	\$ (114,147)
Operating margin	0%		1%	-6%		-6%
Income tax benefit/(expense)	\$ (31,176)	\$ 8,549	\$ (22,627)	\$ 13,433	\$ (75,281)	\$ (61,848)
Net loss before non-controlling interest	\$ (9,393)	\$ 47,300	\$ 37,907	\$ (22,524)	\$ (68,341)	\$ (90,865)
Net loss from continuing operations attributable to Sohu.com Limited for diluted net loss per ADS	(127,738)	34,489	(93,249)	(130,960)	(75,965)	(206,925)

Net loss from discontinued operations attributable to Sohu.com Limited for diluted net loss per ADS	<u>(22,711)</u>	<u>-</u>	<u>(22,711)</u>	<u>(29,999)</u>	<u>50</u>	(b)	<u>(29,949)</u>
Net loss attributable to Sohu.com Limited for diluted net loss per ADS	\$ <u>(150,449)</u>	<u>34,489</u>	<u>(115,960)</u>	\$ <u>(160,959)</u>	<u>(75,915)</u>		<u>(236,874)</u>
Diluted net loss from continuing operations per ADS attributable to Sohu.com Limited	<u>(3.25)</u>		<u>(2.37)</u>	<u>(3.36)</u>			<u>(5.31)</u>
Diluted net loss from discontinued operations per ADS attributable to Sohu.com Limited	<u>(0.58)</u>		<u>(0.58)</u>	<u>(0.77)</u>			<u>(0.77)</u>
Diluted net loss per ADS attributable to Sohu.com Limited.	\$ <u>(3.83)</u>		\$ <u>(2.95)</u>	\$ <u>(4.13)</u>			\$ <u>(6.08)</u>
ADS used in computing diluted net loss per ADS attributable to Sohu.com Limited	<u>39,249</u>		<u>39,249</u>	<u>38,959</u>			<u>38,959</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 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 businesses.