

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

	Three Months Ended		
	Sep. 30, 2020	Jun. 30, 2020	Sep. 30, 2019
Revenues:			
Brand advertising	\$ 41,094	\$ 38,001	\$ 46,366
Online games	101,324	105,937	108,012
Others	15,476	16,023	13,121
Total revenues	<u>157,894</u>	<u>159,961</u>	<u>167,499</u>
Cost of revenues:			
Brand advertising (includes stock-based compensation expense of \$240, \$36, and \$4, respectively)	28,459	22,790	31,992
Online games (includes stock-based compensation expense of \$151, \$152, and nil, respectively)	20,024	23,959	23,286
Others	5,075	6,348	6,746
Total cost of revenues	<u>53,558</u>	<u>53,097</u>	<u>62,024</u>
Gross profit	104,336	106,864	105,475
Operating expenses:			
Product development (includes stock-based compensation expense of \$2,469, \$2,075, and \$95, respectively)	59,532	58,325	55,734
Sales and marketing (includes stock-based compensation expense of \$496, \$93, and \$35, respectively)	40,250	32,969	54,261
General and administrative (includes stock-based compensation expense of \$2,516, \$1,606, and \$24, respectively)	15,176	14,302	12,967
Total operating expenses	<u>114,958</u>	<u>105,596</u>	<u>122,962</u>
Operating profit/(loss)	(10,622)	1,268	(17,487)
Other income, net	7,859	10,720	9,944
Interest income	1,933	1,383	1,166
Interest expense	(1,352)	(1,431)	(2,631)
Exchange difference	(2,043)	(171)	1,516
Income/(loss) before income tax expense	<u>(4,225)</u>	<u>11,769</u>	<u>(7,492)</u>
Income tax expense ⁴	11,082	86,166	14,646
Net loss from continuing operations	<u>(15,307)</u>	<u>(74,397)</u>	<u>(22,138)</u>
Net income/(loss) from discontinued operations, net of tax ⁵	<u>(42,181)</u>	<u>(8,692)</u>	<u>33,938</u>
Net income/(loss)	<u>(57,488)</u>	<u>(83,089)</u>	<u>11,800</u>
Less: Net income/(loss) from continuing operations attributable to the noncontrolling interest shareholders	<u>(50)</u>	<u>2,640</u>	<u>11,320</u>
Less: Net income/(loss) from discontinued operations attributable to the noncontrolling interest shareholders	<u>(27,874)</u>	<u>(5,799)</u>	<u>23,399</u>
Net loss from continuing operations attributable to Sohu.com Limited	<u>(15,257)</u>	<u>(77,037)</u>	<u>(33,458)</u>
Net income/(loss) from discontinued operations attributable to Sohu.com Limited	<u>(14,307)</u>	<u>(2,893)</u>	<u>10,539</u>
Net loss attributable to Sohu.com Limited	<u>(29,564)</u>	<u>(79,930)</u>	<u>(22,919)</u>
Basic net loss from continuing operations per ADS attributable to Sohu.com Limited	<u>\$ (0.39)</u>	<u>\$ (1.96)</u>	<u>\$ (0.85)</u>
Basic net income/(loss) from discontinued operations per ADS attributable to Sohu.com Limited	<u>\$ (0.36)</u>	<u>\$ (0.07)</u>	<u>\$ 0.27</u>
Basic net loss per ADS attributable to Sohu.com Limited	<u>\$ (0.75)</u>	<u>\$ (2.04)</u>	<u>\$ (0.58)</u>
ADS used in computing basic net income/(loss) per ADS attributable to Sohu.com Limited	<u>39,286</u>	<u>39,271</u>	<u>39,254</u>
Diluted net loss from continuing operations per ADS attributable to Sohu.com Limited	<u>\$ (0.39)</u>	<u>\$ (1.96)</u>	<u>\$ (0.85)</u>
Diluted net income/(loss) from discontinued operations per ADS attributable to Sohu.com Limited	<u>\$ (0.36)</u>	<u>\$ (0.07)</u>	<u>\$ 0.26</u>
Diluted net loss per ADS attributable to Sohu.com Limited	<u>\$ (0.75)</u>	<u>\$ (2.04)</u>	<u>\$ (0.59)</u>
ADS used in computing diluted net income/(loss) per ADS attributable to Sohu.com Limited	<u>39,286</u>	<u>39,271</u>	<u>39,254</u>

⁴ 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 for the second quarter of 2020.

⁵ 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 Sep. 30, 2020			Three Months Ended Jun. 30, 2020			Three Months Ended Sep. 30, 2019		
	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP	GAAP	Non-GAAP Adjustments	Non-GAAP
Brand advertising gross profit	\$ 12,635	\$ 240 (a)	\$ 12,875	\$ 15,211	\$ 36 (a)	\$ 15,247	\$ 14,374	\$ 4 (a)	\$ 14,378
Brand advertising gross margin	31%		31%	40%		40%	31%		31%
Online games gross profit	\$ 81,300	\$ 151 (a)	\$ 81,451	\$ 81,978	\$ 152 (a)	\$ 82,130	\$ 84,726	\$ 0 (a)	\$ 84,726
Online games gross margin	80%		80%	77%		78%	78%		78%
Others gross profit	\$ 10,401	\$ 0 (a)	\$ 10,401	\$ 9,675	\$ 0 (a)	\$ 9,675	\$ 6,375	\$ 0 (a)	\$ 6,375
Others gross margin	67%		67%	60%		60%	49%		49%
Gross profit	\$ 104,336	\$ 391 (a)	\$ 104,727	\$ 106,864	\$ 188 (a)	\$ 107,052	\$ 105,475	\$ 4 (a)	\$ 105,479
Gross margin	66%		66%	67%		67%	63%		63%
Operating expenses	\$ 114,958	\$ (5,481)	\$ 109,477	\$ 105,596	\$ (3,774)	\$ 101,822	\$ 122,962	\$ (154)	\$ 122,808
Operating profit/(loss)	\$ (10,622)	\$ 5,872 (a)	\$ (4,750)	\$ 1,268	\$ 3,962 (a)	\$ 5,230	\$ (17,487)	\$ 158 (a)	\$ (17,329)
Operating margin	-7%		-3%	1%		3%	-10%		-10%
Income tax expense ⁹	\$ 11,082	\$ (642)	\$ 10,440	\$ 86,166	\$ (3,140)	\$ 83,026	\$ 14,646	\$ (2,468)	\$ 12,178
Net loss before non-controlling interest	\$ (15,307)	\$ 8,630 (a)	\$ (6,677)	\$ (74,397)	\$ 2,277 (a)	\$ (72,120)	\$ (22,138)	\$ 3,224 (a)	\$ (18,914)
Net loss from continuing operations attributable to Sohu.com Limited for diluted net income/(loss) from discontinued operations attributable to Sohu.com Limited for diluted net loss per ADS	\$ (15,257)	\$ 8,630 (a)	\$ (6,627)	\$ (77,092)	\$ 1,856 (a)	\$ (75,236)	\$ (33,492)	\$ 3,226 (a)	\$ (30,266)
Net loss attributable to Sohu.com Limited for diluted net loss per ADS	\$ (14,307)	\$ 1,462 (b)	\$ (12,845)	\$ (2,894)	\$ 997 (b)	\$ (1,897)	\$ 10,285	\$ 1,351 (b)	\$ 11,636
Diluted net loss from continuing operations per ADS attributable to Sohu.com Limited	\$ (0.39)	\$ (0.17) (c)	\$ (0.56)	\$ (0.19)	\$ (0.08) (c)	\$ (0.27)	\$ (0.85)	\$ (0.50) (c)	\$ (1.35)
Diluted net income/(loss) from discontinued operations per ADS attributable to Sohu.com Limited	\$ (0.36)	\$ (0.33) (d)	\$ (0.69)	\$ (0.07)	\$ (0.05) (d)	\$ (0.12)	\$ 0.26	\$ (0.24) (d)	\$ 0.14
Diluted net loss per ADS attributable to Sohu.com Limited	\$ (0.75)	\$ (0.50)	\$ (1.25)	\$ (0.24)	\$ (0.13)	\$ (0.39)	\$ (0.59)	\$ (0.74)	\$ (1.21)
Shares used in computing diluted net income/(loss) per ADS attributable to Sohu.com Limited	39,286		39,286	39,271		39,271	39,254		39,254

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.

⁹ 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 for the second quarter of 2020.

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.