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CHANGYOU.COM LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED, IN THOUSANDS EXCEPT PER ADS AMOUNTS)

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2015	Sep. 30, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Revenues:					
Online game	\$ 127,001	\$ 152,501	\$ 184,405	\$ 636,846	\$ 652,008
Online advertising	14,798	18,255	18,267	57,832	58,963
IVAS	6,796	5,400	6,556	24,385	22,357
Others	13,315	12,719	6,685	42,573	21,938
Total revenues	<u>161,910</u>	<u>188,875</u>	<u>215,913</u>	<u>761,636</u>	<u>755,266</u>
Cost of revenues:					
Online game (includes share-based compensation expense of \$47, \$(97), \$(36), \$37 and \$57 respectively)	28,266	34,637	51,752	156,318	142,549
Online advertising (includes share-based compensation expense of \$0, \$0, \$0, \$0 and \$93 respectively)	2,315	2,572	3,306	11,565	14,838
IVAS(includes share-based compensation expense of \$(2), \$0, \$2, \$(2) and \$2 respectively)	3,963	4,175	7,367	19,647	22,985
Others	8,203	7,342	6,310	29,231	21,490
Total cost of revenues	<u>42,747</u>	<u>48,726</u>	<u>68,735</u>	<u>216,761</u>	<u>201,862</u>
Gross profit	119,163	140,149	147,178	544,875	553,404
Operating expenses:					
Product development (includes share-based compensation expense of \$2,867, \$(621), \$793, \$5,475 and \$1,069, respectively)	43,841	39,557	22,475	170,605	194,113
Sales and marketing (includes share-based compensation expense of \$487, \$280, \$125, \$1,017 and 105 respectively)	15,456	21,919	38,437	92,355	241,307
General and administrative (includes share-based compensation expense of \$4,095, \$(3,027), \$1,951, \$8,497 and \$2,788 respectively)	19,791	14,714	36,162	80,269	107,451
Goodwill impairment and impairment of intangibles via acquisitions of businesses	0	40,324	52,282	40,324	52,282
Total operating expenses	<u>79,088</u>	<u>116,514</u>	<u>149,356</u>	<u>383,553</u>	<u>595,153</u>
Operating profit/(loss)	40,075	23,635	(2,178)	161,322	(41,749)
Interest income	4,432	3,279	3,164	15,444	19,639
Foreign currency exchange gain/(loss)	963	2,335	(957)	2,954	(668)
Other income	1,064	58,555	2,778	64,962	4,112
Income/(Loss) before income tax expense	46,534	87,804	2,807	244,682	(18,666)
Income tax expense	(8,317)	(25,784)	(7,077)	(54,055)	(2,493)
Net income/(loss)	38,217	62,020	(4,270)	190,627	(21,159)
Less: Net loss attributable to non-controlling interests	(248)	(19,098)	(15,169)	(22,157)	(17,778)
Net income/(loss) attributable to Changyou.com Limited	\$ 38,465	\$ 81,118	\$ 10,899	\$ 212,784	\$ (3,381)
Basic net income/(loss) attributable to Changyou.com Limited per ADS	\$ 0.74	\$ 1.55	\$ 0.21	\$ 4.06	\$ (0.06)
ADSS used in computing basic net income/(loss) attributable to Changyou.com Limited per ADS	<u>52,164</u>	<u>52,238</u>	<u>52,849</u>	<u>52,462</u>	<u>52,861</u>
Diluted net income/(loss) attributable to Changyou.com Limited per ADS	\$ 0.73	\$ 1.55	\$ 0.21	\$ 4.02	\$ (0.06)
ADSS used in computing Diluted net income/(loss) attributable to Changyou.com Limited per ADS	<u>52,846</u>	<u>52,388</u>	<u>52,861</u>	<u>52,881</u>	<u>52,861</u>



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CHANGYOU.COM LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN THOUSANDS)

	<u>As of Dec. 31, 2015</u>	<u>As of Dec. 31, 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 569,917	\$ 220,794
Accounts receivable, net	67,959	77,969
Short-term investments	174,515	191,577
Restricted time deposits	227,285	282,186
Deferred tax assets	4,673	4,918
Prepaid and other current assets	227,719	29,927
Total current assets	<u>1,272,068</u>	<u>807,371</u>
Non-current assets:		
Fixed assets, net	214,306	243,837
Goodwill	111,082	258,997
Intangible assets, net	25,139	68,276
Restricted time deposits	127,454	135,256
Deferred tax assets	12,729	18,704
Other assets, net	16,728	15,524
Total non-current assets	<u>507,438</u>	<u>740,594</u>
TOTAL ASSETS	<u>\$ 1,779,506</u>	<u>\$ 1,547,965</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 42,166	\$ 39,178
Accounts payable and accrued liabilities	275,926	138,507
Short-term bank loans	344,500	25,500
Tax payables	27,423	18,471
Deferred tax liabilities	24,884	22,356
Current contingent consideration	0	3,935
Total current liabilities	<u>714,899</u>	<u>247,947</u>
Long-term liabilities:		
Long-term bank loans	0	344,500
Long-term contingent consideration	0	1,929
Long-term deferred tax liabilities	3,616	5,748
Long-term accounts payable	1,004	5,143
Other long-term liabilities	738	0
Total long-term liabilities	<u>5,358</u>	<u>357,320</u>
Total liabilities	<u>720,257</u>	<u>605,267</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	1,029,479	890,388
Non-controlling interests	29,770	52,310
Total shareholders' equity	<u>1,059,249</u>	<u>942,698</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,779,506</u>	<u>\$ 1,547,965</u>

CHANGYOU.COM LIMITED

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

(UNAUDITED, IN THOUSANDS, EXCEPT PER ADS AMOUNTS)

	Three Months Ended Dec. 31, 2015		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 98,735	47	98,782
Online advertising gross profit	12,483	0	12,483
IVAS gross profit	2,833	(2)	2,831
Other gross profit	5,112	0	5,112
Gross profit	\$ 119,163	45	119,208
Gross margin	74%		74%
Operating profit	\$ 40,075	7,494	47,569
Operating margin	25%		29%
Net income	\$ 38,217	7,494	45,711
Net income attributable to Changyou.com Limited	\$ 38,465	7,537	46,002
Net margin attributable to Changyou.com Limited	24%		28%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 0.73		0.85
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	52,846		53,928

Note:

(a) To eliminate share-based compensation expense measured using the fair value method.

CHANGYOU.COM LIMITED

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

(UNAUDITED, IN THOUSANDS, EXCEPT PER ADS AMOUNTS)

	Three Months Ended Sep. 30, 2015		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 117,864	(97)	117,767
Online advertising gross profit	15,683	0	15,683
IVAS gross profit	1,225	0	1,225
Other gross profit	5,377	0	5,377
Gross profit	\$ 140,149	(97)	140,052
Gross margin	74%		74%
Operating profit	\$ 23,635	(3,465)	20,170
Operating margin	13%		11%
Net income	\$ 62,020	(3,465)	58,555
Net income attributable to Changyou.com Limited	\$ 81,118	(3,484)	77,634
Net margin attributable to Changyou.com Limited	43%		41%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 1.55		1.43
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	52,388		54,155

Note:

(a) To eliminate share-based compensation expense measured using the fair value method.

CHANGYOU.COM LIMITED

**RECONCILIATIONS OF NON-GAAP RESULTS OF OPERATIONS MEASURES TO THE NEAREST COMPARABLE GAAP MEASURES
(UNAUDITED, IN THOUSANDS, EXCEPT PER ADS AMOUNTS)**

	<u>Three Months Ended Dec 31, 2014</u>		
	<u>Non-GAAP adjustments</u>		
	<u>GAAP</u>	<u>Share-based compensation expense (a)</u>	<u>Non-GAAP</u>
Online game gross profit	\$ 132,653	(36)	132,617
Online advertising gross profit	14,961	0	14,961
IVAS gross loss	(811)	2	(809)
Other gross profit	375	0	375
Gross profit	<u>\$ 147,178</u>	<u>(34)</u>	<u>147,144</u>
Gross margin	<u>68%</u>		<u>68%</u>
Operating (loss)/profit	<u>\$ (2,178)</u>	<u>2,835</u>	<u>657</u>
Operating margin	<u>(1%)</u>		<u>0%</u>
Net loss	<u>\$ (4,270)</u>	<u>2,835</u>	<u>(1,435)</u>
Net income attributable to Changyou.com Limited	<u>\$ 10,899</u>	<u>2,770</u>	<u>13,669</u>
Net margin attributable to Changyou.com Limited	<u>5%</u>		<u>6%</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.21</u>		<u>0.25</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>52,861</u>		<u>54,189</u>

Note:

(a) To eliminate share-based compensation expense measured using the fair value method.

CHANGYOU.COM LIMITED

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

(UNAUDITED, IN THOUSANDS, EXCEPT PER ADS AMOUNTS)

	Twelve Months Ended Dec. 31, 2015		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 480,528	37	480,565
Online advertising gross profit	46,267	0	46,267
IVAS gross profit	4,738	(2)	4,736
Other gross profit	13,342	0	13,342
Gross profit	\$ 544,875	35	544,910
Gross margin	72%		72%
Operating profit	\$ 161,322	15,024	176,346
Operating margin	21%		23%
Net income	\$ 190,627	15,024	205,651
Net income attributable to Changyou.com Limited	\$ 212,784	15,010	227,794
Net margin attributable to Changyou.com Limited	28%		30%
Diluted net income per ADS attributable to Changyou.com Limited	\$ 4.02		4.20
ADSs used in computing diluted net income per ADS attributable to Changyou.com Limited	52,881		54,280

Note:

(a) To eliminate share-based compensation expense measured using the fair value method.

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**RECONCILIATIONS OF NON-GAAP RESULTS OF OPERATIONS MEASURES TO THE NEAREST COMPARABLE GAAP MEASURES
(UNAUDITED, IN THOUSANDS, EXCEPT PER ADS AMOUNTS)**

	Twelve Months Ended Dec. 31, 2014		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 509,459	57	509,516
Online advertising gross profit	44,125	93	44,218
IVAS gross loss	(628)	2	(626)
Other gross profit	448	0	448
Gross profit	\$ 553,404	152	553,556
Gross margin	73%		73%
Operating loss	\$ (41,749)	4,114	(37,635)
Operating margin	(6%)		(5%)
Net loss	\$ (21,159)	4,114	(17,045)
Net (loss)/income attributable to Changyou.com Limited	\$ (3,381)	4,049	668
Net margin attributable to Changyou.com Limited	0%		0%
Diluted net (loss)/income attributable to Changyou.com Limited per ADS	\$ (0.06)		0.01
ADSs used in computing diluted net (loss)/income attributable to Changyou.com Limited per ADS	52,861		53,319

Note:

(a) To eliminate share-based compensation expense measured using the fair value method.