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

	Three Months Ended		
	Sep. 30, 2016	Jun. 30, 2016	Sep. 30, 2015
Revenues:			
Online game	\$ 98,553	\$ 99,226	\$ 152,501
Online advertising	11,651	11,541	18,255
IVAS	4,600	4,844	5,400
Others	21,058	13,549	12,719
Total revenues	<u>135,862</u>	<u>129,160</u>	<u>188,875</u>
Cost of revenues:			
Online game (includes share-based compensation expense of \$26, \$17 and \$(97) respectively)	23,719	25,383	34,637
Online advertising	2,761	2,370	2,572
IVAS(includes share-based compensation expense of \$0, \$0 and \$0 respectively)	2,711	3,114	4,175
Others	11,906	11,017	7,342
Total cost of revenues	<u>41,097</u>	<u>41,884</u>	<u>48,726</u>
Gross profit	94,765	87,276	140,149
Operating expenses:			
Product development (includes share-based compensation expense of \$2,524, \$1,334 and \$(621) respectively)	29,934	31,112	39,557
Sales and marketing (includes share-based compensation expense of \$437, \$299 and \$280 respectively)	18,748	13,353	21,919
General and administrative (includes share-based compensation expense of \$4,215, \$1,762 and \$(3,027) respectively)	16,647	13,668	14,714
Goodwill impairment and impairment of intangibles via acquisitions of businesses	-	-	40,324
Total operating expenses	<u>65,329</u>	<u>58,133</u>	<u>116,514</u>
Operating profit	29,436	29,143	23,635
Net interest income	5,879	3,233	3,279
Foreign currency exchange gain	518	2,450	2,335
Other income	2,691	3,522	58,555
Income before income tax expense	38,524	38,348	87,804
Income tax benefit/(expense)	519	(5,012)	(25,784)
Net income	39,043	33,336	62,020
Less: Net income/ (loss) attributable to non-controlling interests	339	402	(19,098)
Net income attributable to Changyou.com Limited	\$ 38,704	\$ 32,934	\$ 81,118
Basic net income per ADS attributable to Changyou.com Limited	<u>\$ 0.74</u>	<u>\$ 0.63</u>	<u>\$ 1.55</u>
ADSs used in computing basic net income per ADS attributable to Changyou.com Limited	<u>52,292</u>	<u>52,254</u>	<u>52,238</u>
Diluted net income per ADS attributable to Changyou.com Limited	<u>\$ 0.73</u>	<u>\$ 0.62</u>	<u>\$ 1.55</u>
ADSs used in computing diluted net income per ADS attributable to Changyou.com Limited	<u>53,219</u>	<u>53,113</u>	<u>52,388</u>



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

	<u>As of Sep. 30, 2016</u>	<u>As of Dec. 31, 2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 636,934	\$ 569,917
Accounts receivable, net	49,661	67,959
Short-term investments	211,286	174,515
Restricted time deposits ¹⁰	-	227,285
Deferred tax assets	4,561	4,673
Prepaid and other current assets	450,345	227,719
Assets held for sale ¹¹	101,786	-
Total current assets	<u>1,454,573</u>	<u>1,272,068</u>
Non-current assets:		
Fixed assets, net	199,773	214,306
Goodwill	27,133	111,082
Intangible assets, net	11,693	25,139
Restricted time deposits ¹⁰	-	127,454
Deferred tax assets	6,580	12,729
Other assets, net	7,507	16,728
Total non-current assets	<u>252,686</u>	<u>507,438</u>
TOTAL ASSETS	<u>\$ 1,707,259</u>	<u>\$ 1,779,506</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 48,274	\$ 42,166
Accounts payable and accrued liabilities	462,184	275,926
Short-term bank loans ¹⁰	-	344,500
Tax payables	5,896	27,423
Deferred tax liabilities	26,247	24,884
Liabilities held for sale ¹¹	3,236	-
Total current Liabilities	<u>545,837</u>	<u>714,899</u>
Long-term liabilities:		
Long-term deferred tax liabilities	3,485	3,616
Long-term accounts payable	27	1,004
Long-term tax payable	13,811	-
Other long-term liabilities	773	738
Total long-term liabilities	<u>18,096</u>	<u>5,358</u>
Total liabilities	<u>563,933</u>	<u>720,257</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	1,113,816	1,029,479
Non-controlling interests	29,510	29,770
Total shareholders' equity	<u>1,143,326</u>	<u>1,059,249</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,707,259</u>	<u>\$ 1,779,506</u>

¹⁰ Changyou repaid all of the remaining bank loans of \$345 million, and restricted time deposits of \$355 million that secured these loans were released during the first quarter of 2016.

¹¹ Changyou management had an intention to divest the Company's interest in MoboTap during the third quarter of 2016. Therefore, the assets and liabilities of MoboTap were recognized as "Assets held for sale" and "Liabilities held for sale," respectively, in the third quarter of 2016.

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, 2016		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 74,834	26	74,860
Online advertising gross profit	8,890	0	8,890
IVAS gross profit	1,889	0	1,889
Other gross profit	9,152	0	9,152
Gross profit	\$ 94,765	26	94,791
Gross margin	70%		70%
Operating profit	\$ 29,436	7,202	36,638
Operating margin	22%		27%
Net income	\$ 39,043	7,202	46,245
Less: Net income attributable to non-controlling interests	339	8	347
Net income attributable to Changyou.com Limited	\$ 38,704	7,194	45,898
Net margin attributable to Changyou.com Limited	28%		34%
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	53,219		53,796

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 Jun. 30, 2016		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 73,843	17	73,860
Online advertising gross profit	9,171	0	9,171
IVAS gross profit	1,730	0	1,730
Other gross profit	2,532	0	2,532
Gross profit	\$ 87,276	17	87,293
Gross margin	68%		68%
Operating profit	\$ 29,143	3,412	32,555
Operating margin	23%		25%
Net income	\$ 33,336	3,412	36,748
Less: Net income attributable to non-controlling interests	402	8	410
Net income attributable to Changyou.com Limited	\$ 32,934	3,404	36,338
Net margin attributable to Changyou.com Limited	25%		28%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 0.62		0.68
ADs used in computing diluted net income attributable to Changyou.com Limited per ADS	53,113		53,759

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
Less: Net loss attributable to non-controlling interests	(19,098)	19	(19,079)
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. The downward adjustment of share-based compensation expense in the current period was a result of fluctuation in the market price for the Company's ADS.