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

	Three Months Ended		
	Mar. 31, 2017	Dec. 31, 2016	Mar. 31, 2016
Revenue:			
Online game	\$ 85,325	\$ 95,400	\$ 102,529
Online advertising	5,854	8,332	7,885
Cinema advertising	24,600	20,371	13,564
IVAS	4,091	6,420	5,862
Total revenue	<u>119,870</u>	<u>130,523</u>	<u>129,840</u>
Cost of revenue:			
Online game (includes share-based compensation expense of \$24, \$(5), and \$(7) respectively)	16,505	20,936	26,133
Online advertising	1,620	2,799	2,174
Cinema advertising	18,203	13,452	9,584
IVAS	2,784	3,792	3,959
Total cost of revenue	<u>39,112</u>	<u>40,979</u>	<u>41,850</u>
Gross profit	80,758	89,544	87,990
Operating expense:			
Product development (includes share-based compensation expense of \$2,004, \$(437), and \$(540) respectively)	26,408	30,516	30,057
Sales and marketing (includes share-based compensation expense of \$401, \$(61), and \$(103) respectively)	10,937	11,989	12,453
General and administrative (includes share-based compensation expense of \$3,104, \$(435), and \$(624) respectively)	11,895	9,222	11,023
Total operating expense	<u>49,240</u>	<u>51,727</u>	<u>53,533</u>
Operating profit	31,518	37,817	34,457
Interest income	5,343	5,217	2,840
Foreign currency exchange (loss)/gain	(742)	2,747	(607)
Other income, net	2,267	5,463	3,847
Income before income tax expense	38,386	51,244	40,537
Income tax expense	(8,425)	(9,356)	(7,734)
Net income	29,961	41,888	32,803
Less: Net income attributable to non-controlling interests	103	869	513
Net income attributable to Changyou.com Limited	\$ 29,858	\$ 41,019	\$ 32,290
Basic net income attributable to Changyou.com Limited per ADS	<u>\$ 0.57</u>	<u>\$ 0.78</u>	<u>\$ 0.62</u>
ADSS used in computing basic net income attributable to Changyou.com Limited per ADS	<u>52,380</u>	<u>52,331</u>	<u>52,241</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.56</u>	<u>\$ 0.77</u>	<u>\$ 0.61</u>
ADSS used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,435</u>	<u>53,346</u>	<u>52,876</u>



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

	<u>As of Mar. 31, 2017</u>	<u>As of Dec. 31, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 560,674	\$ 597,188
Accounts receivable, net	50,097	47,150
Short-term investments	275,698	233,491
Prepaid and other current assets	535,053	484,995
Assets held for sale ¹	-	103,079
Total current assets	1,421,522	1,465,903
Non-current assets:		
Fixed assets, net	187,892	189,770
Goodwill ⁷	110,062	26,502
Intangible assets, net	17,843	12,335
Deferred tax assets	7,267	7,952
Other assets, net	6,275	5,575
Total non-current assets	329,339	242,134
TOTAL ASSETS	\$ 1,750,861	\$ 1,708,037
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 40,224	\$ 43,541
Accounts payable and accrued liabilities	469,333	460,674
Tax payables	7,542	8,381
Liabilities held for sale ⁷	-	3,902
Total current Liabilities	517,099	516,498
Long-term liabilities:		
Long-term deferred tax liabilities	30,239	29,336
Long-term tax payable	13,367	13,295
Other long-term liabilities	1,046	744
Total long-term liabilities	44,652	43,375
Total liabilities	561,751	559,873
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	1,158,685	1,117,767
Non-controlling interests	30,425	30,397
Total shareholders' equity	1,189,110	1,148,164
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,750,861	\$ 1,708,037

¹In the third quarter of 2016, the Company's management had an intention to divest the Company's interest in MoboTap. Therefore, the assets and liabilities of MoboTap were recognized as assets-held-for-sale and liabilities-held-for-sale, respectively, in the Company's financial statements for the third and fourth quarters of 2016. In the first quarter of 2017, due to the suspension of negotiations with the potential buyers of MoboTap, the Company's management determined that the disposal is unlikely to be completed within one year. As a result, the assets-held-for-sale and liabilities-held-for-sale related to MoboTap have been reclassified as assets and liabilities, in the Company's balance sheet as of March 31, 2017.

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 Mar. 31, 2017		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 68,820	24	68,844
Online advertising gross profit	4,234	0	4,234
Cinema advertising gross profit	6,397	0	6,397
IVAS gross profit	1,307	0	1,307
Gross profit	\$ 80,758	24	80,782
Gross margin	67%		67%
Operating expense	49,240	(5,509)	43,731
Operating profit	\$ 31,518	5,533	37,051
Operating margin	26%		31%
Income tax expense	8,425	0	8,425
Net income	\$ 29,961	5,533	35,494
Less: Net income attributable to non-controlling interests	103	3	106
Net income attributable to Changyou.com Limited	\$ 29,858	5,530	35,388
Net margin attributable to Changyou.com Limited	25%		30%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 0.56		0.66
ADSS used in computing diluted net income attributable to Changyou.com Limited per ADS	53,435		53,771

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 Dec. 31, 2016		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 74,464	(5)	74,459
Online advertising gross profit	5,533	0	5,533
Cinema advertising gross profit	6,919	0	6,919
IVAS gross profit	2,628	0	2,628
Gross profit	\$ 89,544	(5)	89,539
Gross margin	69%		69%
Operating expense	51,727	933	52,660
Operating profit	\$ 37,817	(938)	36,879
Operating margin	29%		28%
Income tax expense	9,356	0	9,356
Net income	\$ 41,888	(938)	40,950
Less: Net income attributable to non-controlling interests	869	8	877
Net income attributable to Changyou.com Limited	\$ 41,019	(946)	40,073
Net margin attributable to Changyou.com Limited	31%		31%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 0.77		0.75
ADSS used in computing diluted net income attributable to Changyou.com Limited per ADS	53,346		53,785

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, as certain share-based compensation expense needs to be re-measured based on the fair value as of each period end until the grant date is established.

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 Mar. 31, 2016</u>		
	<u>Non-GAAP adjustments</u>		
	<u>GAAP</u>	<u>Share-based compensation expense (a)</u>	<u>Non-GAAP</u>
Online game gross profit	\$ 76,396	(7)	76,389
Online advertising gross profit	5,711	0	5,711
Cinema advertising gross profit	3,980	0	3,980
IVAS gross profit	1,903	0	1,903
Gross profit	<u>\$ 87,990</u>	<u>(7)</u>	<u>87,983</u>
Gross margin	68%		68%
Operating expense	<u>53,533</u>	<u>1,267</u>	<u>54,800</u>
Operating profit	<u>\$ 34,457</u>	<u>(1,274)</u>	<u>33,183</u>
Operating margin	<u>27%</u>		<u>26%</u>
Income tax expense	7,734	0	7,734
Net income	<u>\$ 32,803</u>	<u>(1,274)</u>	<u>31,529</u>
Less: Net income attributable to non-controlling interests	<u>513</u>	<u>9</u>	<u>522</u>
Net income attributable to Changyou.com Limited	<u>\$ 32,290</u>	<u>(1,283)</u>	<u>31,007</u>
Net margin attributable to Changyou.com Limited	<u>25%</u>		<u>24%</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.61</u>		<u>0.58</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>52,876</u>		<u>53,870</u>

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, as certain share-based compensation expense needs to be re-measured based on the fair value as of each period end until the grant date is established.