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changyou

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

	Three Months Ended		
	Sep. 30, 2017	Jun. 30, 2017	Sep. 30, 2016
Revenue:			
Online game	\$ 132,427	\$ 122,398	\$ 98,553
Online advertising	6,068	7,076	11,651
Cinema advertising	23,967	17,360	21,058
IVAS	3,110	3,527	4,600
Total revenue	<u>165,572</u>	<u>150,361</u>	<u>135,862</u>
Cost of revenue:			
Online game (includes share-based compensation expense of \$4, \$44, and \$26 respectively)	17,560	11,612	23,719
Online advertising	1,661	1,705	2,761
Cinema advertising	22,605	19,627	11,906
IVAS	2,139	2,078	2,711
Total cost of revenue	<u>43,965</u>	<u>35,022</u>	<u>41,097</u>
Gross profit	121,607	115,339	94,765
Operating expense:			
Product development (includes share-based compensation expense of \$590, \$3,500, and \$2,524 respectively)	35,871	35,726	29,934
Sales and marketing (includes share-based compensation expense of \$63, \$719, and \$437 respectively)	17,530	12,501	18,748
General and administrative (includes share-based compensation expense of \$1,551, \$5,219, and \$4,215 respectively)	11,142	13,606	16,647
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business ¹	86,882	-	-
Total operating expense	<u>151,425</u>	<u>61,833</u>	<u>65,329</u>
Operating profit/ (loss)	(29,818)	53,506	29,436
Interest income, net	7,811	7,106	5,879
Foreign currency exchange gain/ (loss)	(1,584)	(1,558)	518
Other income, net	581	2,586	2,691
Income/ (loss) before income tax expense	(23,010)	61,640	38,524
Income tax expense/ (benefit)	(10,793)	(10,060)	519
Net income/ (loss)	(33,803)	51,580	39,043
Less: Net income/ (loss) attributable to non-controlling interests ⁵	(27,029)	36	339
Net income/ (loss) attributable to Changyou.com Limited	\$ (6,774)	\$ 51,544	\$ 38,704
Basic net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ (0.13)</u>	<u>\$ 0.98</u>	<u>\$ 0.74</u>
ADSs used in computing basic net income attributable to Changyou.com Limited per ADS	<u>52,682</u>	<u>52,607</u>	<u>52,292</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ (0.13)</u>	<u>\$ 0.96</u>	<u>\$ 0.73</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>52,682</u>	<u>53,480</u>	<u>53,219</u>

¹ The impairments were mainly related to the MoboTap business, which was acquired in 2014. In the third quarter of 2015, the Company recognized an impairment charge related to the MoboTap business due to a change in the Company's strategic direction. Since then, MoboTap focused on the development and operation of card and board games, which have been MoboTap's main source of revenue. Due to reinforced restrictions the Chinese regulatory authorities imposed on card and board games, some of the Company's key distribution partners informed the Company that they had decided to stop the distribution and promotion of card and board games in the third quarter of 2017. As a result, the Company determined that it is unlikely for MoboTap to gain users and grow its revenue in China, and accordingly further impairment charges of US\$87 million were recognized to reflect the fair value of the MoboTap business. The impairment charges attributable to the Changyou.com Limited were US\$60 million, and the impairment charges attributable to non-controlling interests were US\$27 million.



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

	<u>As of Sep. 30, 2017</u>	<u>As of Dec. 31, 2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 576,883	\$ 597,188
Accounts receivable, net	105,429	47,150
Short-term investments	304,264	233,491
Prepaid and other current assets	621,689	484,995
Assets held for sale ²	-	103,079
Total current assets	<u>1,608,265</u>	<u>1,465,903</u>
Non-current assets:		
Fixed assets, net	190,124	189,770
Goodwill ⁶	27,237	26,502
Intangible assets, net	9,422	12,335
Deferred tax assets	7,868	7,952
Other assets, net	8,044	5,575
Total non-current assets	<u>242,695</u>	<u>242,134</u>
TOTAL ASSETS	<u>\$ 1,850,960</u>	<u>\$ 1,708,037</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 42,766	\$ 43,541
Accounts payable and accrued liabilities	480,099	460,674
Tax payables	18,698	8,381
Liabilities held for sale ⁶	-	3,902
Total current Liabilities	<u>541,563</u>	<u>516,498</u>
Long-term liabilities:		
Long-term deferred tax liabilities	32,903	29,336
Long-term tax payable	13,896	13,295
Other long-term liabilities	778	744
Total long-term liabilities	<u>47,577</u>	<u>43,375</u>
Total liabilities	<u>589,140</u>	<u>559,873</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	1,258,376	1,117,767
Non-controlling interests	3,444	30,397
Total shareholders' equity	<u>1,261,820</u>	<u>1,148,164</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,850,960</u>	<u>\$ 1,708,037</u>

²In 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 was 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 since March 31, 2017. In the third quarter of 2017, the Company recognized impairment charges related to the MoboTap business.

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, 2017		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense	Non-GAAP
Online game gross profit	\$ 114,867	4	114,871
Online advertising gross profit	4,407	-	4,407
Cinema advertising gross profit	1,362	-	1,362
IVAS gross profit	971	-	971
Gross profit	\$ 121,607	4	121,611
Gross margin	73%		73%
Operating expense	151,425	(2,204)	149,221
Operating loss	\$ (29,818)	2,208	(27,610)
Operating margin	(18%)		(17%)
Income tax expense	10,793	-	10,793
Net loss	\$ (33,803)	2,208	(31,595)
Less: Net loss attributable to non-controlling interests	(27,029)	3	(27,026)
Net loss attributable to Changyou.com Limited	\$ (6,774)	2,205	(4,569)
Net margin attributable to Changyou.com Limited	(4%)		(3%)
Diluted net loss attributable to Changyou.com Limited per ADS	\$ (0.13)		(0.09)
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	52,682		52,682

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, 2017		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense	Non-GAAP
Online game gross profit	\$ 110,786	44	110,830
Online advertising gross profit	5,371	-	5,371
Cinema advertising gross loss	(2,267)	-	(2,267)
IVAS gross profit	1,449	-	1,449
Gross profit	\$ 115,339	44	115,383
Gross margin	77%		77%
Operating expense	61,833	(9,438)	52,395
Operating profit	\$ 53,506	9,482	62,988
Operating margin	36%		42%
Income tax expense	10,060	-	10,060
Net income	\$ 51,580	9,482	61,062
Less: Net income attributable to non-controlling interests	36	3	39
Net income attributable to Changyou.com Limited	\$ 51,544	9,479	61,023
Net margin attributable to Changyou.com Limited	34%		41%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 0.96		1.14
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	53,480		53,749

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	Non-GAAP
Online game gross profit	\$ 74,834	26	74,860
Online advertising gross profit	8,890	-	8,890
Cinema advertising gross profit	9,152	-	9,152
IVAS gross profit	1,889	-	1,889
Gross profit	\$ 94,765	26	94,791
Gross margin	70%		70%
Operating expense	65,329	(7,176)	58,153
Operating profit	\$ 29,436	7,202	36,638
Operating margin	22%		27%
Income tax benefit	(519)	-	(519)
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
ADSSs used in computing diluted net income attributable to Changyou.com Limited per ADS	53,219		53,796