



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

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2017	Sep. 30, 2017	Dec. 31, 2016	Dec. 31, 2017	Dec. 31, 2016
<b>Revenue:</b>					
Online game	\$ 109,383	\$ 132,427	\$ 95,400	\$ 449,533	\$ 395,708
Online advertising	6,131	6,068	8,332	25,129	39,409
Cinema advertising	25,492	23,967	20,371	91,419	68,542
IVAS	3,452	3,110	6,420	14,180	21,726
Total revenue	<u>144,458</u>	<u>165,572</u>	<u>130,523</u>	<u>580,261</u>	<u>525,385</u>
<b>Cost of revenue:</b>					
Online game (includes share-based compensation expense of \$1, \$4, \$(5), \$73 and \$31 respectively)	17,097	17,560	20,936	62,774	96,171
Online advertising	1,674	1,661	2,799	6,660	10,104
Cinema advertising	24,509	22,605	13,452	84,944	45,959
IVAS	2,407	2,139	3,792	9,408	13,576
Total cost of revenue	<u>45,687</u>	<u>43,965</u>	<u>40,979</u>	<u>163,786</u>	<u>165,810</u>
<b>Gross profit</b>	<b>98,771</b>	<b>121,607</b>	<b>89,544</b>	<b>416,475</b>	<b>359,575</b>
<b>Operating expenses:</b>					
Product development (includes share-based compensation expense of \$69, \$590, \$(437), \$6,163 and \$2,881, respectively)	33,027	35,871	30,516	131,032	121,619
Sales and marketing (includes share-based compensation expense of \$29, \$63, \$(61), \$1,212 and \$572 respectively)	19,949	17,530	11,989	60,917	56,543
General and administrative (includes share-based compensation expense of \$71, \$1,551, \$(435), \$9,945 and \$4,918 respectively)	10,520	11,142	9,222	47,163	50,560
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business <sup>1</sup>	-	86,882	-	86,882	-
Total operating expenses	<u>63,496</u>	<u>151,425</u>	<u>51,727</u>	<u>325,994</u>	<u>228,722</u>
<b>Operating profit/ (loss)</b>	<b>35,275</b>	<b>(29,818)</b>	<b>37,817</b>	<b>90,481</b>	<b>130,853</b>
Interest income, net	7,687	7,811	5,217	27,947	17,169
Foreign currency exchange gain/ (loss)	(1,312)	(1,584)	2,747	(5,196)	5,108
Other income, net	3,940	581	5,463	9,374	15,523
<b>Income/ (loss) before income tax expense</b>	<b>45,590</b>	<b>(23,010)</b>	<b>51,244</b>	<b>122,606</b>	<b>168,653</b>
Income tax expense	11,489	10,793	9,356	40,767	21,583
<b>Net income/ (loss)</b>	<b>34,101</b>	<b>(33,803)</b>	<b>41,888</b>	<b>81,839</b>	<b>147,070</b>
Less: Net income/(loss) attributable to non-controlling interests	(105)	(27,029)	869	(26,995)	2,123
<b>Net income/ (loss) attributable to Changyou.com Limited</b>	<b>\$ 34,206</b>	<b>\$ (6,774)</b>	<b>\$ 41,019</b>	<b>\$ 108,834</b>	<b>\$ 144,947</b>
Basic net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 0.65</u>	<u>\$ (0.13)</u>	<u>\$ 0.78</u>	<u>\$ 2.07</u>	<u>\$ 2.78</u>
ADSS used in computing basic net income attributable to Changyou.com Limited per ADS	<u>52,709</u>	<u>52,682</u>	<u>52,331</u>	<u>52,594</u>	<u>52,280</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 0.64</u>	<u>\$ (0.13)</u>	<u>\$ 0.77</u>	<u>\$ 2.04</u>	<u>\$ 2.72</u>
ADSS used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,544</u>	<u>52,682</u>	<u>53,346</u>	<u>53,285</u>	<u>53,139</u>

<sup>1</sup> 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 has 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 was unlikely that MoboTap would 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.



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

	<u>As of Dec. 31, 2017</u>	<u>As of Dec. 31, 2016</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 573,159	\$ 597,188
Accounts receivable, net	91,636	47,150
Short-term investments	404,584	233,491
Prepaid and other current assets	528,085	484,995
Assets held for sale <sup>2</sup>	-	103,079
<b>Total current assets</b>	<u><b>1,597,464</b></u>	<u><b>1,465,903</b></u>
<b>Non-current assets:</b>		
Fixed assets, net	189,947	189,770
Goodwill <sup>6</sup>	27,504	26,502
Intangible assets, net	8,460	12,335
Deferred tax assets	10,100	7,952
Other assets, net	88,548	5,575
<b>Total non-current assets</b>	<u><b>324,559</b></u>	<u><b>242,134</b></u>
<b>TOTAL ASSETS</b>	<u><b>\$ 1,922,023</b></u>	<u><b>\$ 1,708,037</b></u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Receipts in advance and deferred revenue	\$ 42,917	\$ 43,541
Accounts payable and accrued liabilities	494,934	460,674
Tax payables	19,468	8,381
Liabilities held for sale <sup>6</sup>	-	3,902
<b>Total current Liabilities</b>	<u><b>557,319</b></u>	<u><b>516,498</b></u>
<b>Long-term liabilities:</b>		
Deferred tax liabilities	34,443	29,336
Long-term tax payable	14,114	13,295
Other long-term liabilities	790	744
<b>Total long-term liabilities</b>	<u><b>49,347</b></u>	<u><b>43,375</b></u>
<b>Total liabilities</b>	<u><b>606,666</b></u>	<u><b>559,873</b></u>
<b>SHAREHOLDERS' EQUITY</b>		
Changyou.com Limited shareholders' equity	1,312,005	1,117,767
Non-controlling interests	3,352	30,397
<b>Total shareholders' equity</b>	<u><b>1,315,357</b></u>	<u><b>1,148,164</b></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><b>\$ 1,922,023</b></u>	<u><b>\$ 1,708,037</b></u>

<sup>2</sup>In 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)**

	<u>Three Months Ended Dec. 31, 2017</u>		
	<u>Non-GAAP adjustments</u>		
	<u>GAAP</u>	<u>Share-based compensation expense</u>	<u>Non-GAAP</u>
Online game gross profit	\$ 92,286	1	92,287
Online advertising gross profit	4,457	-	4,457
Cinema advertising gross profit	983	-	983
IVAS gross profit	1,045	-	1,045
Gross profit	<u>\$ 98,771</u>	<u>1</u>	<u>98,772</u>
Gross margin	68%		68%
Operating expense	63,496	(169)	63,327
Operating profit	<u>\$ 35,275</u>	<u>170</u>	<u>35,445</u>
Operating margin	24%		25%
Income tax expense	11,489		11,489
Net income	<u>\$ 34,101</u>	<u>170</u>	<u>34,271</u>
Less: Net loss attributable to non-controlling interests	(105)	3	(102)
Net income attributable to Changyou.com Limited	<u>\$ 34,206</u>	<u>167</u>	<u>34,373</u>
Net margin attributable to Changyou.com Limited	24%		24%
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.64</u>		<u>0.64</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,544</u>		<u>53,701</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)**

	<b>Three Months Ended Sep. 30, 2017</b>		
	<b>Non-GAAP adjustments</b>		
	<b>GAAP</b>	<b>Share-based compensation expense</b>	<b>Non-GAAP</b>
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 loss 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 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	-	5,533
Cinema advertising gross profit	6,919	-	6,919
IVAS gross profit	2,628	-	2,628
Gross profit	\$ 89,544	(5)	89,539
Gross margin	69%		69%
Operating expenses	51,727	933	52,660
Operating profit	\$ 37,817	(938)	36,879
Operating margin	29%		28%
Income tax expense	9,356	-	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 fluctuations in the market price for the Company's ADS.

**CHANGYOU.COM LIMITED**

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

**(UNAUDITED, IN THOUSANDS, EXCEPT PER ADS AMOUNTS)**

	<b>Twelve Months Ended Dec. 31, 2017</b>		
	<b>Non-GAAP adjustments</b>		
	<b>GAAP</b>	<b>Share-based compensation expense</b>	<b>Non-GAAP</b>
Online game gross profit	\$ 386,759	73	386,832
Online advertising gross profit	18,469	-	18,469
Cinema advertising gross profit	6,475	-	6,475
IVAS gross profit	4,772	-	4,772
Gross profit	\$ 416,475	73	416,548
Gross margin	72%		72%
Operating expenses	325,994	(17,320)	308,674
Operating profit	\$ 90,481	17,393	107,874
Operating margin	16%		19%
Income tax expense	40,767	-	40,767
Net income	\$ 81,839	17,393	99,232
Less: Net loss attributable to non-controlling interests	(26,995)	12	(26,983)
Net income attributable to Changyou.com Limited	\$ 108,834	17,381	126,215
Net margin attributable to Changyou.com Limited	19%		22%
Diluted net income per ADS attributable to Changyou.com Limited \$	2.04		2.36
ADSs used in computing diluted net income per ADS attributable to Changyou.com Limited	53,285		53,476

**CHANGYOU.COM LIMITED**

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

**(UNAUDITED, IN THOUSANDS, EXCEPT PER ADS AMOUNTS)**

	<b>Twelve Months Ended Dec. 31, 2016</b>		
	<b>Non-GAAP adjustments</b>		
	<b>GAAP</b>	<b>Share-based compensation expense</b>	<b>Non-GAAP</b>
Online game gross profit	\$ 299,537	31	299,568
Online advertising gross profit	29,305	-	29,305
Cinema advertising gross profit	22,583	-	22,583
IVAS gross profit	8,150	-	8,150
Gross profit	\$ 359,575	31	359,606
Gross margin	68%		68%
Operating expenses	228,722	(8,371)	220,351
Operating profit	\$ 130,853	8,402	139,255
Operating margin	25%		27%
Income tax expense	21,583	-	21,583
Net income	\$ 147,070	8,402	155,472
Less: Net income attributable to non-controlling interests	2,123	33	2,156
Net income attributable to Changyou.com Limited	\$ 144,947	8,369	153,316
Net margin attributable to Changyou.com Limited	28%		29%
Diluted net income per ADS attributable to Changyou.com Limited	\$ 2.72		2.85
ADSs used in computing diluted net income per ADS attributable to Changyou.com Limited	53,139		53,803