



Changyou Reports Third Quarter 2016 Unaudited Financial Results

Beijing, China, October 24, 2016— Changyou.com Limited (“Changyou” or the “Company”) (NASDAQ: CYOU), a leading online game developer and operator in China, today announced its unaudited financial results for the third quarter ended September 30, 2016.

Third Quarter 2016 Highlights

- Total revenues were US\$136 million¹, representing a decrease of 28% year-over-year and an increase of 5% quarter-over-quarter, exceeding guidance by \$1 million.
- Online game revenues were US\$99 million, representing a decrease of 35% year-over-year and 1% quarter-over-quarter, in line with the Company’s guidance.
- GAAP net income attributable to Changyou.com Limited was US\$39 million, or US\$0.73 per fully-diluted ADS².
- Non-GAAP³ net income attributable to Changyou.com Limited was US\$46 million, exceeding the Company’s guidance by US\$16 million⁴. This compares with US\$78 million in the third quarter of 2015 and US\$36 million in the second quarter of 2016.
- Non-GAAP net income attributable to Changyou.com Limited per fully-diluted ADS was US\$0.85. This compares with US\$1.43 in the third quarter of 2015 and US\$0.68 in the second quarter of 2016.

Mr. Dewen Chen, CEO, commented, “In the year since we repositioned ourselves as game-centric company, we adopted the strategy, ‘Top games, Big IP, and Mass marketing’. We have been working to diversify our portfolio of games and we have set higher criteria for assessing games in order to maintain the user base and draw new players to our various online and mobile worlds. We have full confidence in this process, and believe we have set ourselves up well for the coming year.”

Mr. Qing Wei, Chief Games Development Officer added, “During the third quarter, we conducted a test on Legacy TLBB with Tencent and the results essentially matched both of our expectations. Progress on the game’s development has been in line with our schedule, and we are now entering the final stages of fine-tuning. We expect to be able to launch the game at the beginning of 2017.”

¹ For the third quarter of 2016, on a yearly basis, the depreciation of the RMB against the U.S. dollar impacted our reported financial results. Should the exchange rate be at RMB6.26=US\$1.00 as the same of the third quarter of 2015, total revenues in the third quarter of 2016 have been US\$145 million, or US\$9 million higher than the GAAP total revenue, or down 23% year-over-year.

² Each ADS represents two Class A ordinary shares.

³ Non-GAAP results exclude share-based compensation expense, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions. Explanation of the Company’s non-GAAP financial measures and related reconciliations to GAAP financial measures are included in the accompanying “Non-GAAP Disclosure” and “Reconciliations of Non-GAAP Results of Operations Measures to the Nearest Comparable GAAP Measures.”

⁴ As noted in the Company’s report of results for the second quarter of 2016, the Company’s guidance for the third quarter of 2016 excluded the potential impact of a tax expense adjustment on the Company’s results. During the third quarter of 2016, the Company recognized a tax benefit for the preferential tax rate of one of the Company’s PRC subsidiaries as a “2015 Key National Software Enterprise”. If the tax benefit was deducted from the third quarter results, non-GAAP net income attributable to Changyou.com Limited would exceed the Company’s guidance by US\$5 million for the third quarter of 2016.



Ms. Jasmine Zhou, CFO of Changyou added, “We are pleased that we exceeded our revenue guidance and non-GAAP net income guidance. Online game revenues remained stable at around \$100 million compared with the second quarter, and we were able to keep fairly tight control of our costs. Total revenues and online game revenues are expected to decline slightly in the fourth quarter. Overall, we believe that we are well positioned for a rebound in 2017 as we get closer to releasing a diverse collection of new and exciting games that are currently under development.”

Third Quarter 2016 Operational Results

- Total average monthly active accounts⁵ of the Company’s PC games were 2.7 million, representing a decrease of 34% year-over-year and 7% quarter-over-quarter. The year-over-year and quarter-over-quarter decreases reflected the natural declining life cycles of the Company’s older PC games.
- Total average monthly active accounts of the Company’s mobile games were 2.8 million, representing an increase of 17% both year-over-year and quarter-over-quarter. The year-over-year and quarter-over-quarter increases were mainly due to the launch of new games Da Da Da Luan Dou and Hortesia Saga in the third quarter of 2016.
- Total quarterly aggregate active paying accounts⁶ of the Company’s PC games were 1.0 million, representing a decrease of 23% year-over-year and flat quarter-over-quarter. The year-over-year decrease reflected the natural declining life cycles of the Company’s older PC games.
- Total quarterly aggregate active paying accounts of the Company’s mobile games were 0.7 million, representing an increase of 17% both year-over-year and quarter-over-quarter. The year-over-year increase was due to the launch of new games Da Da Da Luan Dou and Hortesia Saga in the third quarter of 2016. The quarter-over-quarter increase was mainly due to the launch of new games Da Da Da Luan Dou and Hortesia Saga in the third quarter of 2016, and was also a result of an increase in total quarterly aggregate active paying accounts of TLBB 3D due to the Company’s efforts in retaining the core base of players and encouraging returning players.

Third Quarter 2016 Unaudited Financial Results

Revenues

Total revenues were US\$136 million, representing a decrease of 28% year-over-year and an increase of 5% quarter-over-quarter.

Online game revenues were US\$99 million, representing a decrease of 35% year-over-year and 1% quarter-over-quarter. The year-over-year decrease was mainly due to the natural decline in revenues of older games, such as TLBB and TLBB 3D, and a decrease in Web game revenues upon the completion of the sale of the 7Road business during the third quarter of 2015.

Online advertising revenues were US\$12 million, representing a decrease of 36% year-over-year and an increase of 1% quarter-over-quarter. The year-over-year decrease was mainly due to fewer PC games being marketed on the 17173 Website.

Internet value-added services (“IVAS”) revenues were US\$4 million, representing a decrease of 15% year-over-year and 5% quarter-over-quarter. The year-over-year and quarter-over-quarter decreases were a result of lower revenues from mobile internet products in the third quarter of 2016.

Other revenues, which consist of cinema advertising revenues, were US\$21 million, representing an

⁵ Average Monthly Active Accounts for a given period refers to the number of registered accounts that were logged in to these games at least once during the period.

⁶ Quarterly Aggregate Active Paying Accounts for a given period refers to the number of accounts from which game points are utilized at least once during the quarter.



increase of 66% year-over-year and 55% quarter-over-quarter. The year-over-year increase reflected the strong growth of China's movie and cinema industry in general. The quarter-over-quarter increase was mainly due to a seasonal pickup of the cinema business during the summer holiday, as well as a business expansion strategy to purchase more cinema resources related to our cinema advertising business.

Gross profit

GAAP and non-GAAP gross profit were both US\$95 million, representing a decrease of 32% year-over-year and an increase of 9% quarter-over-quarter. GAAP and non-GAAP gross margins were both 70%, compared with 74% for both in the third quarter of 2015, and 68% for both in the second quarter of 2016.

GAAP and non-GAAP gross profit of the online games business were both US\$75 million, representing a decrease of 37% and 36% for year-over-year, respectively, and an increase of 1% for both quarter-over-quarter. GAAP and non-GAAP gross margin of the online games business were both 76%, compared with 77% in the third quarter of 2015 and 74% in the second quarter of 2016. The quarter-over-quarter increase in gross margin was due to a smaller revenue contribution from mobile games, which typically require additional revenue-sharing payments.

GAAP and non-GAAP gross profit of the online advertising business were both US\$9 million, representing a decrease of 43% year-over-year and 3% quarter-over-quarter. GAAP and non-GAAP gross margin of the online advertising business were both 76%, compared with 86% in the third quarter of 2015 and 79% in the second quarter of 2016. The year-over-year decrease in gross margin was due to a decrease in online advertising revenues.

GAAP and non-GAAP gross profit for the IVAS business were both US\$2 million, compared with a gross profit of US\$1 million in the third quarter of 2015 and a gross profit of US\$2 million in the second quarter of 2016.

GAAP and non-GAAP gross profit of the other business were both US\$9 million, compared with US\$5 million in the third quarter of 2015 and US\$3 million in the second quarter of 2016. The increases were mainly due to an increase in other business revenues.

Operating expenses

Total operating expenses were US\$65 million, representing a decrease of 44% year-over-year and an increase of 12% quarter-over-quarter.

Product development expenses were US\$30 million, representing a decrease of 24% year-over-year and 4% quarter-over-quarter. The year-over-year decrease reflected a reduction in salary and benefits expenses due to a reduction in headcount during the past year, which was partially offset by an increase in share-based compensation expense⁷ compared with the third quarter of 2015. The quarter-over-quarter decrease was due to a reduction in bonus expense, which was partially offset by an increase in share-based compensation expense⁸ compared with the second quarter of 2016.

Sales and marketing expenses were US\$19 million, representing a decrease of 14% year-over-year and an increase of 40% quarter-over-quarter. The year-over-year decrease was due to a reduction in salary and benefits expenses, which was a result of reduced workforce as well as a reduction in bonus expense. The quarter-over-quarter increase was mainly due to an increase in marketing spending to promote the new game Da Da Da Luan Dou launched in the third quarter and an upcoming annual expansion pack of TLBB

⁷ The increase in share-based compensation expense was triggered by an increase in the market price for the Company's ADSs compared to the third quarter of 2015.

⁸ The increase in share-based compensation expense was triggered by an increase in the market price for the Company's ADSs compared to the second quarter of 2016.



PC game in the fourth quarter.

General and administrative expenses were US\$16 million, representing an increase of 13% year-over-year and 22% quarter-over-quarter. The year-over-year increase was mainly due to an increase in share-based compensation expense⁷ compared with the third quarter of 2015, which was partially offset by a decrease in salary and benefits expenses due to a reduction in headcount and severance payments. The quarter-over-quarter increase was mainly due to an increase in share-based compensation expense⁸ compared with the second quarter of 2016.

Operating profit

Operating profit was US\$29 million, compared with US\$24 million in the third quarter of 2015 and US\$29 million in the second quarter of 2016.

Non-GAAP operating profit was US\$37 million, compared with US\$20 million in the third quarter of 2015 and US\$33 million in the second quarter of 2016.

Other Income

Other income was US\$3 million, compared with US\$59 million in the third quarter of 2015 and US\$4 million in the second quarter of 2016. The year-over-year decrease was mainly due to one-off income related to gain recognized upon the divestment of 7Road and certain overseas assets during the third quarter of 2015.

Income tax benefit/ (expense)

Income tax benefit was US\$1 million, compared with an income tax expense of US\$26 million in the third quarter of 2015 and US\$5 million in the second quarter of 2016, respectively. The income tax benefit in the third quarter of 2016 was mainly due to recognition of a tax benefit for the preferential tax rate of one of the Company's subsidiaries as a "2015 Key National Software Enterprise" in the third quarter of 2016.

Net income

Net income was US\$39 million, which compares with US\$62 million in the third quarter of 2015 and US\$33 million in the second quarter of 2016.

Non-GAAP net income was US\$46 million, which compares with US\$59 million in the third quarter of 2015 and US\$37 million in the second quarter of 2016.

Net income/ (loss) attributable to non-controlling interests

Both GAAP and non-GAAP net income attributable to non-controlling interests was US\$0.3 million. This compares with both a GAAP and non-GAAP net loss of US\$19 million in the third quarter of 2015, and a GAAP and a non-GAAP net income of US\$0.4 million in the second quarter of 2016. Non-controlling interests include the non-controlling interests in RaidCall, which provides online music and entertainment services primarily in Taiwan, and in MoboTap Inc., the developer of the Dolphin Browser. The GAAP and non-GAAP net loss in the third quarter of 2015 was mainly due to an impairment charge related to the Dolphin Browser having been recognized.

Net income attributable to Changyou.com Limited

Net income attributable to Changyou.com Limited was US\$39 million, compared with US\$81 million in the third quarter of 2015 and US\$33 million in the second quarter of 2016. Fully-diluted net income attributable to Changyou.com Limited per ADS was US\$0.73. This compares with US\$1.55 in the third



quarter of 2015 and US\$0.62 in the second quarter of 2016.

Non-GAAP net income attributable to Changyou.com Limited was US\$46 million. This compares with US\$78 million in the third quarter of 2015 and US\$36 million in the second quarter of 2016. Non-GAAP fully-diluted net income attributable to Changyou.com Limited per ADS was US\$0.85. This compares with US\$1.43 in the third quarter of 2015 and US\$0.68 in the second quarter of 2016.

Liquidity

As of September 30, 2016, Changyou had net cash⁹ of US\$848 million, compared with US\$755 million as of December 31, 2015.

Operating cash flow for the third quarter of 2016 was a net inflow of US\$47 million.

Business Outlook

For the fourth quarter of 2016, Changyou expects:

- Total revenues to be between US\$120 million and US\$130 million, including online game revenues of US\$85 million to US\$95 million;
- Non-GAAP net income attributable to Changyou.com Inc. to be between US\$30 million and US\$35 million, and non-GAAP income per fully-diluted share to be between US\$0.56 and US\$0.65. Assuming no new grants of share-based awards and that the market price of our shares is unchanged; we estimate that compensation expense relating to share-based awards will be around US\$2.0 million and US\$3.0 million. Considering eliminating the impact of these share-based awards, **GAAP net income attributable to Changyou.com to be between US\$27 million and US\$33 million**, and **GAAP income per fully-diluted share to be between US\$0.51 and US\$0.62**.

For the fourth quarter 2016 guidance, the Company has adopted a presumed exchange rate of RMB6.7 = US\$1.00, as compared with the actual exchange rate of approximately RMB6.39 = US\$1.00 for the fourth quarter 2015, and RMB6.66=US\$ 1.00 for the third quarter 2016.

Non-GAAP Disclosure

To supplement the unaudited consolidated financial information prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”), Changyou's management uses non-GAAP measures of gross profit, operating profit, net income, net income attributable to Changyou.com Limited and diluted net income attributable to Changyou.com Limited per ADS, which are adjusted from results based on GAAP to exclude the compensation cost of share-based awards granted, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results.

Changyou's management believes that excluding share-based compensation expense, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions from its non-GAAP financial measures is useful for itself and investors. Further, the amount of share-based compensation expense, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions cannot be anticipated by management, and these expenses are not built into the Company's annual budgets and quarterly forecasts, which

⁹ Net cash is calculated as the sum of cash and cash equivalents, short-term investments, current and non-current restricted time deposits, minus short-term bank loans.



generally will be the basis for information Changyou provides to analysts and investors as guidance for future operating performance. As share-based compensation expense, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions does not involve subsequent cash outflow, Changyou does not factor this in when evaluating and approving expenditures or when determining the allocation of its resources to its business operations. As a result, in general, the monthly financial results for internal reporting and any performance measure for commissions and bonuses are based on non-GAAP financial measures that exclude share-based compensation expense, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions.

The non-GAAP financial measures are provided to enhance investors' overall understanding of Changyou's current financial performance and prospects for the future. A limitation of using non-GAAP gross profit, operating profit, net income, net income attributable to Changyou.com Limited and diluted net income attributable to Changyou.com Limited per ADS, excluding share-based compensation expense, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions, is that the share-based compensation charge has been and will continue to be a significant recurring expense in the Company's business for the foreseeable future, non-cash tax benefits from excess tax deductions related to share-based awards and income/expense from the adjustment of contingent consideration previously recorded for acquisitions may recur in the future. In order to mitigate these limitations the Company has provided specific information regarding the GAAP amounts excluded from each non-GAAP measure. The accompanying tables include details on the reconciliation between GAAP financial measures that are most directly comparable to the non-GAAP financial measures the Company has presented.

Notes to Financial Information

Financial information in this press release other than the information indicated as being non-GAAP is derived from Changyou's unaudited financial statements prepared in accordance with GAAP.

Loan Agreement and Share Pledge Agreement with Sohu.com Inc. ("Sohu")

On October 24, 2016, Changyou entered into a loan agreement with a PRC subsidiary of Sohu, Changyou's parent company, pursuant to which the PRC subsidiary may borrow up to RMB1 billion (or approximately US\$148.64 million) from a PRC subsidiary of Changyou from time to time, with the first advance request to occur prior to December 31, 2016 and Sohu's right to request advances continuing for one year after the first advance, subject to extension for an additional year with Changyou's consent. Principal amounts outstanding under the loan agreement will bear interest at an annual rate of 6%, accruing and payable on each one-year anniversary of each advance. The outstanding principal of each advance will be due one year from the date of the advance, subject to extension for an additional year with Changyou's consent. Advances under the loan agreement will be secured by a pledge to Changyou under a share pledge agreement of an agreed-upon number of Changyou Class B ordinary shares of Changyou held by Sohu. The share pledge agreement will give Changyou the right to apply the outstanding principal and accrued interest on the loan to the repurchase of Changyou Class B ordinary shares from Sohu in the event such principal and interest are not paid when due. Sohu has indicated that it will use amounts drawn down under the loan agreement to finance Sohu's operations, excluding the operations of Changyou and of Sohu's subsidiary Sogou.

A special committee of the Company's Board of Directors (the "Board"), composed solely of independent directors, determined that the terms of the proposed loan were fair to the Company and recommended that the Board approve the loan agreement and the share pledge agreement. The Board, relying on the special committee's recommendation and an evaluation report from the financial advisor to the special committee, determined that the terms of the proposed loan were fair to the Company, and approved the loan agreement and the share pledge agreement.



Safe Harbor Statement

It is currently expected that the Business Outlook will not be updated until the release of Changyou's next quarterly earnings announcement; however, Changyou reserves the right to update its Business Outlook at any time for any reason.

This announcement contains forward-looking statements. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. The Company cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Potential risks and uncertainties include, but are not limited to, continuing volatility in global financial and credit markets and its potential impact on the Chinese economy; exchange rate fluctuations in general and possible continued valuation of the RMB in particular, including their potential impact on the Chinese economy and on the Company's reported U.S. dollar results; slowing growth in the Chinese economy; the uncertain regulatory landscape in the People's Republic of China; fluctuations in Changyou's quarterly operating results; the possibility that Changyou will be unable to develop a series of successful games for mobile platforms or successfully monetize mobile games it develops or acquires; the possibility that the Company's margins will decline as a result of the need for revenue-sharing with mobile game platform operators; and the Company's reliance on TLBB as its major revenue source. Further information regarding these and other risks is included in Changyou's Annual Report on Form 20-F filed on February 26, 2016, and other filings with the Securities and Exchange Commission.

Conference Call Information

Changyou's management team will host an earnings conference call today at 7 a.m. U.S. Eastern Time, October 24, 2016 (7 p.m. Beijing/Hong Kong, October 24, 2016).

The dial-in details for the live conference call are:

| | |
|-----------------|------------------|
| US: | +1-855-298-3404 |
| Hong Kong: | +852-5808-3202 |
| China Mainland: | +86-400-1200-539 |
| International: | +1-631-514-2526 |
| Passcode: | CYOU |

Please dial in 10 minutes before the call is scheduled to begin and provide the passcode to join the call.

A telephone replay of the call will be available after the conclusion of the conference call at 10: 00 a.m. Eastern Time on October 24, 2016 through October 31, 2016. The dial-in details for the telephone replay are:

| | |
|----------------|------------------|
| International: | +1- 866-846-0868 |
| Passcode: | 2116291 |

The live Webcast and archive of the conference call will be available on the Investor Relations section of Changyou's Website at <http://ir.changyou.com/>.

About Changyou

Changyou.com Limited (NASDAQ: CYOU) is a leading developer and operator of online games in China with a diverse portfolio of popular online games , such as Tian Long Ba Bu ("TLBB"), one of the most



popular PC games in China, as well as a number of mobile games. Changyou also owns and operates the 17173.com Website, a leading game information portal in China. Changyou began operations as a business unit within Sohu.com Inc. (NASDAQ: SOHU) in 2003, and was carved out as a separate, stand-alone company in December 2007. It completed an initial public offering on April 7, 2009. Changyou has an advanced technology platform that includes advanced 2.5D and 3D graphics engines, a uniform game development platform, effective anti-cheating and anti-hacking technologies, proprietary cross-networking technology and advanced data protection technology. For more information, please visit <http://ir.changyou.com>.

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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.