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changyou

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

	Three Months Ended		
	Jun. 30, 2018	Mar. 31, 2018	Jun. 30, 2017
Revenue:			
Online game	\$ 94,252	\$ 105,461	\$ 122,398
Online advertising	5,550	5,077	7,076
Cinema advertising	11,604	24,870	17,360
IVAS	1,421	1,797	3,527
Total revenue	<u>112,827</u>	<u>137,205</u>	<u>150,361</u>
Cost of revenue:			
Online game (includes share-based compensation expense of \$(23), \$(12) and \$44 respectively)	14,463	17,119	11,612
Online advertising	1,233	1,491	1,705
Cinema advertising	21,355	22,729	19,627
IVAS	1,340	1,603	2,078
Total cost of revenue	<u>38,391</u>	<u>42,942</u>	<u>35,022</u>
Gross profit	74,436	94,263	115,339
Operating expenses:			
Product development (includes share-based compensation expense of \$(1,717), \$(935) and \$3,500 respectively)	28,481	33,793	35,726
Sales and marketing (includes share-based compensation expense of \$(378), \$(199) and \$719 respectively)	14,341	15,237	12,501
General and administrative (includes share-based compensation expense of \$(2,314), \$(1,279) and \$5,219 respectively)	5,919	7,890	13,606
Total operating expenses	<u>48,741</u>	<u>56,920</u>	<u>61,833</u>
Operating profit	25,695	37,343	53,506
Interest income, net	6,772	7,647	7,106
Foreign currency exchange gain/ (loss)	2,279	(2,811)	(1,558)
Other income, net	5,111	5,441	2,586
Income before income tax expense	39,857	47,620	61,640
Income tax expense	7,774	61,059	10,060
Net income/ (loss)	32,083	(13,439)	51,580
Less: Net income/(loss) attributable to non-controlling interests	(22)	(281)	36
Net income/ (loss) attributable to Changyou.com Limited	\$ 32,105	\$ (13,158)	\$ 51,544
Basic net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 0.60</u>	<u>\$ (0.25)</u>	<u>\$ 0.98</u>
ADSs used in computing basic net income attributable to Changyou.com Limited per ADS	<u>53,158</u>	<u>52,734</u>	<u>52,607</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 0.60</u>	<u>\$ (0.25)</u>	<u>\$ 0.96</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,610</u>	<u>52,734</u>	<u>53,480</u>



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

	<u>As of Jun. 30, 2018</u>	<u>As of Dec. 31, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 170,916	\$ 571,139
Restricted cash	4,272	2,020
Accounts receivable, net	65,368	91,636
Short-term investments	395,878	404,584
Prepaid and other current assets	717,487	528,085
Total current assets	<u>1,353,921</u>	<u>1,597,464</u>
Non-current assets:		
Fixed assets, net	182,265	189,947
Goodwill	27,289	27,504
Intangible assets, net	16,532	8,460
Deferred tax assets	10,708	10,100
Other assets, net	11,318	88,548
Total non-current assets	<u>248,112</u>	<u>324,559</u>
TOTAL ASSETS	<u>\$ 1,602,033</u>	<u>\$ 1,922,023</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 43,370	\$ 42,917
Accounts payable and accrued liabilities	630,675	494,934
Tax payables	19,182	19,468
Total current Liabilities	<u>693,227</u>	<u>557,319</u>
Long-term liabilities:		
Deferred tax liabilities	83,368	34,443
Long-term tax payable	13,938	14,114
Other long-term liabilities	780	790
Total long-term liabilities	<u>98,086</u>	<u>49,347</u>
Total liabilities	<u>791,313</u>	<u>606,666</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	808,756	1,312,005
Non-controlling interests	1,964	3,352
Total shareholders' equity	<u>810,720</u>	<u>1,315,357</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,602,033</u>	<u>\$ 1,922,023</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)

	Three Months Ended Jun. 30, 2018		
	Non-GAAP adjustments (a)		
	GAAP	Share-based compensation expense (b)	Non-GAAP
Online game gross profit	\$ 79,789	(23)	79,766
Online advertising gross profit	4,317	-	4,317
Cinema advertising gross loss	(9,751)	-	(9,751)
IVAS gross profit	81	-	81
Gross profit	\$ 74,436	(23)	74,413
Gross margin	66%		66%
Operating expenses	48,741	4,409	53,150
Operating profit	\$ 25,695	(4,432)	21,263
Operating margin	23%		19%
Income tax expense	7,774		7,774
Net income	\$ 32,083	(4,432)	27,651
Less: Net loss attributable to non-controlling interests	(22)	-	(22)
Net income attributable to Changyou.com Limited	\$ 32,105	(4,432)	27,673
Net margin attributable to Changyou.com Limited	28%		25%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 0.60		0.52
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	53,610		53,695

Note:

(a) The Non-GAAP adjustment does not have an impact on income tax expense.

(b) 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)

	Three Months Ended Mar. 31, 2018		
	GAAP	Non-GAAP adjustments	
		Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 88,342	(12)	88,330
Online advertising gross profit	3,586	-	3,586
Cinema advertising gross profit	2,141	-	2,141
IVAS gross profit	194	-	194
Gross profit	<u>\$ 94,263</u>	<u>(12)</u>	<u>94,251</u>
Gross margin	69%		69%
Operating expenses	56,920	2,413	59,333
Operating profit	<u>\$ 37,343</u>	<u>(2,425)</u>	<u>34,918</u>
Operating margin	27%		25%
Income tax expense	61,059		61,059
Net loss	<u>\$ (13,439)</u>	<u>(2,425)</u>	<u>(15,864)</u>
Less: Net loss attributable to non-controlling interests	(281)	-	(281)
Net loss attributable to Changyou.com Limited	<u>\$ (13,158)</u>	<u>(2,425)</u>	<u>(15,583)</u>
Net margin attributable to Changyou.com Limited	(10%)		(11%)
Diluted net loss attributable to Changyou.com Limited per ADS	<u>\$ (0.25)</u>		<u>(0.30)</u>
ADSs used in computing diluted net loss attributable to Changyou.com Limited per ADS	<u>52,734</u>		<u>52,734</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 fluctuations in the market price for the Company's ADS.

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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 expenses	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