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changyou

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

	Three Months Ended		
	Jun. 30, 2015	Mar. 31, 2015	Jun. 30, 2014
Revenues:			
Online game	\$ 172,350	\$ 184,994	\$ 153,877
Online advertising	15,143	9,636	14,732
IVAS	6,270	5,919	4,833
Others	8,391	8,148	4,339
Total revenues	<u>202,154</u>	<u>208,697</u>	<u>177,781</u>
Cost of revenues:			
Online game (includes share-based compensation expense of \$43, \$44 and \$17 respectively)	43,929	49,486	30,262
Online advertising	3,232	3,446	3,617
IVAS	5,384	6,125	5,184
Others	7,132	6,554	4,473
Total cost of revenues	<u>59,677</u>	<u>65,611</u>	<u>43,536</u>
Gross profit	142,477	143,086	134,245
Operating expenses:			
Product development (includes share-based compensation expense of \$2,194, \$1,035 and \$64 respectively)	41,952	45,255	49,041
Sales and marketing (includes share-based compensation expense of \$268, \$(18) and \$13 respectively)	33,091	21,889	69,400
General and administrative (includes share-based compensation expense of \$4,586, \$2,843 and \$364 respectively)	22,367	23,397	22,816
Total operating expenses	<u>97,410</u>	<u>90,541</u>	<u>141,257</u>
Operating profit/(loss)	45,067	52,545	(7,012)
Interest income	4,095	3,638	5,742
Foreign currency exchange (loss) / gain	(160)	(184)	151
Other income	1,905	3,438	434
Income/ (Loss) before income tax expense	50,907	59,437	(685)
Income tax (expense)/benefits	(7,509)	(12,445)	2,192
Net income	43,398	46,992	1,507
Less: Net loss attributable to non-controlling interests	(1,515)	(1,296)	(387)
Net income attributable to Changyou.com Limited	\$ 44,913	\$ 48,288	\$ 1,894
Basic net income per ADS attributable to Changyou.com Limited	\$ 0.85	\$ 0.92	\$ 0.04
ADs used in computing basic net income per ADS attributable to Changyou.com Limited	<u>52,706</u>	<u>52,738</u>	<u>52,872</u>
Diluted net income per ADS attributable to Changyou.com Limited	\$ 0.84	\$ 0.91	\$ 0.04
ADs used in computing diluted net income per ADS attributable to Changyou.com Limited	<u>53,264</u>	<u>53,025</u>	<u>52,941</u>



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

	<u>As of Jun. 30, 2015</u>	<u>As of Dec. 31, 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 354,270	\$ 220,794
Accounts receivable, net	85,789	77,969
Short-term investments	197,086	191,577
Restricted time deposits	250,866	282,186
Deferred tax assets	2,597	4,918
Prepaid and other current assets	146,330	29,927
Assets held for sale	151,545	0
Total current assets	<u>1,188,483</u>	<u>807,371</u>
Non-current assets:		
Fixed assets, net	232,509	243,837
Goodwill	149,382	258,997
Intangible assets, net	43,350	68,276
Restricted time deposits	135,376	135,256
Deferred tax assets	14,361	18,704
Other assets, net	17,645	15,524
Total non-current assets	<u>592,623</u>	<u>740,594</u>
TOTAL ASSETS	<u>\$ 1,781,106</u>	<u>\$ 1,547,965</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 51,676	\$ 39,178
Accounts payable and accrued liabilities	271,430	138,507
Short-term bank loans	25,500	25,500
Tax payables	7,709	18,471
Deferred tax liabilities	24,229	22,356
Current contingent consideration	2,045	3,935
Liabilities held for sale	2,779	0
Total current liabilities	<u>385,368</u>	<u>247,947</u>
Long-term liabilities:		
Long-term bank loans	344,500	344,500
Long-term contingent consideration	0	1,929
Long-term deferred tax liabilities	4,500	5,748
Long-term accounts payable	2,031	5,143
Total long-term liabilities	<u>351,031</u>	<u>357,320</u>
Total liabilities	<u>736,399</u>	<u>605,267</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	995,606	890,388
Non-controlling interests	49,101	52,310
Total shareholders' equity	<u>1,044,707</u>	<u>942,698</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,781,106</u>	<u>\$ 1,547,965</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)

	<u>Three Months Ended Jun. 30, 2015</u>		
	<u>Non-GAAP adjustments</u>		
	<u>GAAP</u>	<u>Share-based compensation expense (a)</u>	<u>Non-GAAP</u>
Online game gross profit	\$ 128,421	43	128,464
Online advertising gross profit	11,911	0	11,911
IVAS gross profit	886	0	886
Other gross profit	1,259	0	1,259
Gross profit	<u>\$ 142,477</u>	<u>43</u>	<u>142,520</u>
Gross margin	<u>70%</u>		<u>71%</u>
Operating profit	<u>\$ 45,067</u>	<u>7,091</u>	<u>52,158</u>
Operating margin	<u>22%</u>		<u>26%</u>
Net income	<u>\$ 43,398</u>	<u>7,091</u>	<u>50,489</u>
Net income attributable to Changyou.com Limited	<u>\$ 44,913</u>	<u>7,072</u>	<u>51,985</u>
Net margin attributable to Changyou.com Limited	<u>22%</u>		<u>26%</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.84</u>		<u>0.95</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,264</u>		<u>54,989</u>

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 Mar. 31, 2015		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 135,508	44	135,552
Online advertising gross profit	6,190	0	6,190
IVAS gross (loss)	(206)	0	(206)
Other gross profit	1,594	0	1,594
Gross profit	\$ 143,086	44	143,130
Gross margin	69%		69%
Operating profit	\$ 52,545	3,904	56,449
Operating margin	25%		27%
Net income	\$ 46,992	3,904	50,896
Net income attributable to Changyou.com Limited	\$ 48,288	3,885	52,173
Net margin attributable to Changyou.com Limited	23%		25%
Diluted net income attributable to Changyou.com Limited per ADS	\$ 0.91		0.97
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	53,025		54,046

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, 2014		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 123,615	17	123,632
Online advertising gross profit	11,115	0	11,115
IVAS gross (loss)	(351)	0	(351)
Other gross (loss)	(134)	0	(134)
Gross profit	\$ 134,245	17	134,262
Gross margin	76%		76%
Operating (loss)	\$ (7,012)	458	(6,554)
Operating margin	(4%)		(4%)
Net income	\$ 1,507	458	1,965
Net income attributable to Changyou.com Limited	\$ 1,894	458	2,352
Net margin attributable to Changyou.com Limited	1%		1%
Diluted net income per ADS attributable to Changyou.com Limited	\$ 0.04		0.04
ADSs used in computing diluted net income per ADS attributable to Changyou.com Limited	52,941		53,049

Note:

(a) To eliminate share-based compensation expense measured using the fair value method.