



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

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2016	Sep. 30, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Revenues:					
Online game	\$ 95,400	\$ 98,553	\$ 127,001	\$ 395,708	\$ 636,846
Online advertising	8,332	11,651	14,798	39,409	57,832
Cinema advertising	20,371	21,058	13,315	68,542	42,573
IVAS	6,420	4,600	6,796	21,726	24,385
Total revenues	<u>130,523</u>	<u>135,862</u>	<u>161,910</u>	<u>525,385</u>	<u>761,636</u>
Cost of revenues:					
Online game(includes share-based compensation expense of \$(5), \$26, \$47, \$31 and \$37 respectively)	20,936	23,719	28,266	96,171	156,318
Online advertising	2,799	2,761	2,315	10,104	11,565
Cinema advertising	13,452	11,906	8,203	45,959	29,231
IVAS(includes share-based compensation expense of \$0, \$0, \$(2), \$0 and \$(2) respectively)	3,792	2,711	3,963	13,576	19,647
Total cost of revenues	<u>40,979</u>	<u>41,097</u>	<u>42,747</u>	<u>165,810</u>	<u>216,761</u>
Gross profit	89,544	94,765	119,163	359,575	544,875
Operating expenses:					
Product development (includes share-based compensation expense of \$(437), \$2,524, \$2,867, \$2,881 and \$5,475, respectively)	30,516	29,934	43,841	121,619	170,605
Sales and marketing (includes share-based compensation expense of \$(61), \$437, \$487, \$572 and \$1,017 respectively)	11,989	18,748	15,456	56,543	92,355
General and administrative (includes share-based compensation expense of \$(435), \$4,215, \$4,095, \$4,918 and \$8,497 respectively)	9,222	16,647	19,791	50,560	80,269
Goodwill impairment and impairment of intangibles via acquisitions of businesses	-	-	-	-	40,324
Total operating expenses	<u>51,727</u>	<u>65,329</u>	<u>79,088</u>	<u>228,722</u>	<u>383,553</u>
Operating profit	37,817	29,436	40,075	130,853	161,322
Interest income	5,217	5,879	4,432	17,169	15,444
Foreign currency exchange gain	2,747	518	963	5,108	2,954
Other income	5,463	2,691	1,064	15,523	64,962
Income before income tax expense	51,244	38,524	46,534	168,653	244,682
Income tax (expense)/ benefit	(9,356)	519	(8,317)	(21,583)	(54,055)
Net income	41,888	39,043	38,217	147,070	190,627
Less: Net income/(loss) attributable to non-controlling interests	869	339	(248)	2,123	(22,157)
Net income attributable to Changyou.com Limited	\$ 41,019	\$ 38,704	\$ 38,465	\$ 144,947	\$ 212,784
Basic net income attributable to Changyou.com Limited per ADS	<u>\$ 0.78</u>	<u>\$ 0.74</u>	<u>\$ 0.74</u>	<u>\$ 2.78</u>	<u>\$ 4.06</u>
ADSs used in computing basic net income attributable to Changyou.com Limited per ADS	<u>52,331</u>	<u>52,292</u>	<u>52,164</u>	<u>52,280</u>	<u>52,462</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.77</u>	<u>\$ 0.73</u>	<u>\$ 0.73</u>	<u>\$ 2.72</u>	<u>\$ 4.02</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,346</u>	<u>53,219</u>	<u>52,846</u>	<u>53,139</u>	<u>52,881</u>



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

	<u>As of Dec. 31, 2016</u>	<u>As of Dec. 31, 2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 597,188	\$ 569,917
Accounts receivable, net	47,150	67,959
Short-term investments	233,491	174,515
Restricted time deposits ¹	-	227,285
Prepaid and other current assets	484,995	227,719
Assets held for sale ²	103,079	-
Total current assets	<u>1,465,903</u>	<u>1,267,395</u>
Non-current assets:		
Fixed assets, net	189,770	214,306
Goodwill ¹²	26,502	111,082
Intangible assets, net	12,335	25,139
Restricted time deposits ¹¹	-	127,454
Deferred tax assets ³	7,952	17,402
Other assets, net	5,575	16,728
Total non-current assets	<u>242,134</u>	<u>512,111</u>
TOTAL ASSETS	<u>\$ 1,708,037</u>	<u>\$ 1,779,506</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 43,541	\$ 42,166
Accounts payable and accrued liabilities	460,674	275,926
Short-term bank loans ¹¹	-	344,500
Tax payables	8,381	27,423
Liabilities held for sale ¹²	3,902	-
Total current Liabilities	<u>516,498</u>	<u>690,015</u>
Long-term liabilities:		
Long-term deferred tax liabilities ¹³	29,336	28,500
Long-term accounts payable	-	1,004
Long-term tax payable	13,295	-
Other long-term liabilities	744	738
Total long-term liabilities	<u>43,375</u>	<u>30,242</u>
Total liabilities	<u>559,873</u>	<u>720,257</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	1,117,767	1,029,479
Non-controlling interests	30,397	29,770
Total shareholders' equity	<u>1,148,164</u>	<u>1,059,249</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,708,037</u>	<u>\$ 1,779,506</u>

¹ 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.

² Changyou management had an intention to divest the Company's interest in MoboTap in 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, since the third quarter of 2016.

³ The Company early adopted the Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes, retrospectively from the fourth quarter of 2016. The guidance requires current deferred income tax assets and liabilities to be classified as non-current assets and liabilities in balance sheet. As a result of the adoption of this guidance, \$4.7 million of current deferred tax assets recorded in prepaid and other current assets, and \$24.9 million of deferred tax liabilities were reclassified to non-current as of December 31, 2015.

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	0	5,533
Cinema advertising gross profit	6,919	0	6,919
IVAS gross profit	2,628	0	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)	0	(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	\$	<u>0.77</u>	<u>0.75</u>
ADSS used in computing diluted net income attributable to			
Changyou.com Limited per ADS		<u>53,346</u>	<u>53,785</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 fluctuation 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 Sep. 30, 2016

	Non-GAAP adjustments		
	Share-based		
	GAAP	compensation expense (a)	Non-GAAP
Online game gross profit	\$ 74,834	26	74,860
Online advertising gross profit	8,890	0	8,890
Cinema advertising gross profit	9,152	0	9,152
IVAS gross profit	1,889	0	1,889
Gross profit	\$ 94,765	26	94,791
Gross margin	70%		70%
Operating expenses	65,329	(7,176)	58,153
Operating profit	\$ 29,436	7,202	36,638
Operating margin	22%		27%
Income tax benefit	519	0	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

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 Dec. 31, 2015		
	<u>Non-GAAP adjustments</u>		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 98,735	47	98,782
Online advertising gross profit	12,483	0	12,483
Cinema advertising gross profit	5,112	0	5,112
IVAS gross profit	2,833	(2)	2,831
Gross profit	\$ 119,163	45	119,208
Gross margin	74%		74%

Operating expenses	79,088	(7,449)	71,639
Operating profit	\$ 40,075	7,494	47,569
Operating margin	25%		29%
Income tax expense	(8,317)	0	(8,317)
Net income	\$ 38,217	7,494	45,711
Less: Net loss attributable to non-controlling interests	(248)	(43)	(291)
Net income attributable to Changyou.com Limited	\$ 38,465	7,537	46,002
Net margin attributable to Changyou.com Limited	24%		28%
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	52,846		53,928

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)

Twelve Months Ended Dec. 31, 2016

	Non-GAAP adjustments		
	Share-based		
	GAAP	compensation expense (a)	Non-GAAP
Online game gross profit	\$ 299,537	31	299,568
Online advertising gross profit	29,305	0	29,305
Cinema advertising gross profit	22,583	0	22,583
IVAS gross profit	8,150	0	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)	0	(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

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)

	Twelve Months Ended Dec. 31, 2015		
	<u>Non-GAAP adjustments</u>		
	GAAP	Share-based compensation expense (a)	Non-GAAP
Online game gross profit	\$ 480,528	37	480,565
Online advertising gross profit	46,267	0	46,267
IVAS gross profit	4,738	(2)	4,736
Other gross profit	13,342	0	13,342
Gross profit	\$ 544,875	35	544,910
Gross margin	72%		72%

Operating expenses	383,553	(14,989)	368,564
Operating profit	\$ 161,322	15,024	176,346
Operating margin	21%		23%
Income tax expense	(54,055)	0	(54,055)
Net income	\$ 190,627	15,024	205,651
Less: Net loss attributable to non-controlling interests	(22,157)	14	(22,143)
Net income attributable to Changyou.com Limited	\$ 212,784	15,010	227,794
Net margin attributable to Changyou.com Limited	28%		30%
Diluted net income per ADS attributable to Changyou.com Limited	\$ 4.02		4.20
ADSs used in computing diluted net income per ADS attributable to			
Changyou.com Limited	52,881		54,280

Note:

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