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changyou

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

	Three Months Ended		
	Sep. 30, 2018	Jun. 30, 2018	Sep. 30, 2017
Revenue:			
Online game	\$ 95,971	\$ 94,252	\$ 132,427
Online advertising	4,872	5,550	6,068
Cinema advertising	15,811	11,604	23,967
IVAS	1,306	1,421	3,110
Total revenue	<u>117,960</u>	<u>112,827</u>	<u>165,572</u>
Cost of revenue:			
Online game (includes share-based compensation expense/ (benefit) of \$(3), \$(23) and \$4 respectively)	14,902	14,463	17,560
Online advertising	1,241	1,233	1,661
Cinema advertising	21,629	21,355	22,605
IVAS	1,155	1,340	2,139
Total cost of revenue	<u>38,927</u>	<u>38,391</u>	<u>43,965</u>
Gross profit	79,033	74,436	121,607
Operating expenses:			
Product development (includes share-based compensation expense/ (benefit) of \$(267), \$(1,717) and \$590 respectively)	29,326	28,481	35,871
Sales and marketing (includes share-based compensation expense/ (benefit) of \$(41), \$(378) and \$63 respectively)	12,735	14,341	17,530
General and administrative (includes share-based compensation expense/ (benefit) of \$(533), \$(2,314) and \$1,551 respectively)	8,178	5,919	11,142
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business	-	-	86,882
Total operating expenses	<u>50,239</u>	<u>48,741</u>	<u>151,425</u>
Operating profit/ (loss)	28,794	25,695	(29,818)
Interest income, net	3,138	6,772	7,811
Foreign currency exchange gain/ (loss)	1,785	2,279	(1,584)
Other income, net	9,155	5,111	581
Income/ (loss) before income tax expense	42,872	39,857	(23,010)
Income tax expense/ (benefit)	(12,347)	7,774	10,793
Net income/ (loss)	55,219	32,083	(33,803)
Less: Net loss attributable to non-controlling interests	20	22	27,029
Net income/ (loss) attributable to Changyou.com Limited	\$ 55,239	\$ 32,105	\$ (6,774)
Basic net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 1.04</u>	<u>\$ 0.60</u>	<u>\$ (0.13)</u>
ADSs used in computing basic net income attributable to Changyou.com Limited per ADS	<u>53,217</u>	<u>53,158</u>	<u>52,682</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 1.03</u>	<u>\$ 0.60</u>	<u>\$ (0.13)</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,632</u>	<u>53,610</u>	<u>52,682</u>



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

	<u>As of Sep. 30, 2018</u>	<u>As of Dec. 31, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 344,432	\$ 571,139
Restricted cash	4,764	2,020
Accounts receivable, net	56,921	91,636
Short-term investments	275,730	404,584
Prepaid and other current assets	680,498	528,085
Total current assets	<u>1,362,345</u>	<u>1,597,464</u>
Non-current assets:		
Fixed assets, net	172,726	189,947
Goodwill	26,638	27,504
Intangible assets, net	15,657	8,460
Deferred tax assets	5,642	10,100
Other assets, net	12,403	88,548
Total non-current assets	<u>233,066</u>	<u>324,559</u>
TOTAL ASSETS	<u>\$ 1,595,411</u>	<u>\$ 1,922,023</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 39,616	\$ 42,917
Accounts payable and accrued liabilities	630,788	494,934
Tax payables	10,834	19,468
Total current liabilities	<u>681,238</u>	<u>557,319</u>
Long-term liabilities:		
Deferred tax liabilities	83,028	34,443
Long-term tax payable	13,406	14,114
Other long-term liabilities	750	790
Total long-term liabilities	<u>97,184</u>	<u>49,347</u>
Total liabilities	<u>778,422</u>	<u>606,666</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	815,046	1,312,005
Non-controlling interests	1,943	3,352
Total shareholders' equity	<u>816,989</u>	<u>1,315,357</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,595,411</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 Sep. 30, 2018		
	Non-GAAP adjustments (a)		
	GAAP	Share-based compensation expense (b)	Non-GAAP
Online game gross profit	\$ 81,069	(3)	81,066
Online advertising gross profit	3,631	-	3,631
Cinema advertising gross loss	(5,818)	-	(5,818)
IVAS gross profit	151	-	151
Gross profit	<u>\$ 79,033</u>	<u>(3)</u>	<u>79,030</u>
Gross margin	67%		67%
Operating expenses	50,239	841	51,080
Operating profit	<u>\$ 28,794</u>	<u>(844)</u>	<u>27,950</u>
Operating margin	24%		24%
Income tax benefit	(12,347)		(12,347)
Net income	<u>\$ 55,219</u>	<u>(844)</u>	<u>54,375</u>
Less: Net loss attributable to non-controlling interests	(20)	-	(20)
Net income attributable to Changyou.com Limited	<u>\$ 55,239</u>	<u>(844)</u>	<u>54,395</u>
Net margin attributable to Changyou.com Limited	47%		46%
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 1.03</u>		<u>1.01</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,632</u>		<u>53,685</u>

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 Jun. 30, 2018		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense (a)	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) 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 Sep. 30, 2017		
	Non-GAAP adjustments		
	GAAP	Share-based compensation expense	Non-GAAP
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 expenses	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 income attributable to Changyou.com Limited per ADS	52,682		52,682