



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

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2018	Sep. 30, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Revenue:					
Online game	\$ 94,106	\$ 95,971	\$ 109,383	\$ 389,790	\$ 449,533
Online advertising	4,198	4,872	6,131	19,697	25,129
Cinema advertising	17,917	15,811	25,492	70,202	91,419
IVAS	1,550	1,306	3,452	6,074	14,180
Total revenue	<u>117,771</u>	<u>117,960</u>	<u>144,458</u>	<u>485,763</u>	<u>580,261</u>
Cost of revenue:					
Online game (includes share-based compensation expense/ (benefit) of \$7, \$(3), \$1, \$(31) and \$73, respectively)	14,499	14,902	17,097	60,983	62,774
Online advertising	1,239	1,241	1,674	5,204	6,660
Cinema advertising	23,520	21,629	24,509	89,233	84,944
IVAS	1,310	1,155	2,407	5,408	9,408
Total cost of revenue	<u>40,568</u>	<u>38,927</u>	<u>45,687</u>	<u>160,828</u>	<u>163,786</u>
Gross profit	77,203	79,033	98,771	324,935	416,475
Operating expenses:					
Product development (includes share-based compensation expense/ (benefit) of \$492, \$(267), \$69, \$(2,427) and \$6,163, respectively)	32,566	29,326	33,027	124,166	131,032
Sales and marketing (includes share-based compensation expense/ (benefit) of \$121, \$(41), \$29, \$(497) and \$1,212, respectively)	11,990	12,735	19,949	54,303	60,917
General and administrative (includes share-based compensation expense/ (benefit) of \$620, \$(533), \$71, \$(3,506) and \$9,945, respectively)	8,129	8,178	10,520	30,116	47,163
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business	16,369	-	-	16,369	86,882
Total operating expenses	<u>69,054</u>	<u>50,239</u>	<u>63,496</u>	<u>224,954</u>	<u>325,994</u>
Operating profit	8,149	28,794	35,275	99,981	90,481
Interest income, net	6,655	3,138	7,687	24,212	27,947
Foreign currency exchange gain/ (loss)	67	1,785	(1,312)	1,320	(5,196)
Other income, net	3,172	9,155	3,940	22,879	9,374
Income before income tax expense	18,043	42,872	45,590	148,392	122,606
Income tax expense/ (benefit)	7,981	(12,347)	11,489	64,467	40,767
Net income	10,062	55,219	34,101	83,925	81,839
Less: Net loss attributable to non-controlling interests	(84)	(20)	(105)	(407)	(26,995)
Net income attributable to Changyou.com Limited	\$ 10,146	\$ 55,239	\$ 34,206	\$ 84,332	\$ 108,834
Basic net income attributable to Changyou.com Limited per ADS	<u>\$ 0.19</u>	<u>\$ 1.04</u>	<u>\$ 0.65</u>	<u>\$ 1.59</u>	<u>\$ 2.07</u>
ADs used in computing basic net income attributable to Changyou.com Limited per ADS	<u>53,233</u>	<u>53,217</u>	<u>52,709</u>	<u>53,085</u>	<u>52,594</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.19</u>	<u>\$ 1.03</u>	<u>\$ 0.64</u>	<u>\$ 1.57</u>	<u>\$ 2.04</u>
ADs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,656</u>	<u>53,632</u>	<u>53,544</u>	<u>53,618</u>	<u>53,285</u>



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

	<u>As of Dec. 31, 2018</u>	<u>As of Dec. 31, 2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 454,534	\$ 571,139
Restricted cash	4,775	2,020
Accounts receivable, net	57,389	91,636
Short-term investments	190,068	404,584
Prepaid and other current assets	721,059	528,085
Total current assets	<u>1,427,825</u>	<u>1,597,464</u>
Non-current assets:		
Fixed assets, net	170,746	189,947
Goodwill	10,257	27,504
Intangible assets, net	13,904	8,460
Deferred tax assets	13,467	10,100
Restricted time deposits	243,910	-
Other assets, net	85,375	88,548
Total non-current assets	<u>537,659</u>	<u>324,559</u>
TOTAL ASSETS	<u>\$ 1,965,484</u>	<u>\$ 1,922,023</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 45,343	\$ 42,917
Accounts payable and accrued liabilities	753,071	494,934
Tax payables	18,211	19,468
Total current liabilities	<u>816,625</u>	<u>557,319</u>
Long-term liabilities:		
Deferred tax liabilities	83,026	34,443
Long-term tax payable	13,438	14,114
Long-term bank loans	220,000	-
Other long-term liabilities	751	790
Total long-term liabilities	<u>317,215</u>	<u>49,347</u>
Total liabilities	<u>1,133,840</u>	<u>606,666</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	829,735	1,312,005
Non-controlling interests	1,909	3,352
Total shareholders' equity	<u>831,644</u>	<u>1,315,357</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,965,484</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 Dec. 31, 2018		
	Non-GAAP adjustments (a)		
	GAAP	Share-based compensation expense (b)	Non-GAAP
Online game gross profit	\$ 79,607	7	79,614
Online advertising gross profit	2,959	-	2,959
Cinema advertising gross loss	(5,603)	-	(5,603)
IVAS gross profit	240	-	240
Gross profit	<u>\$ 77,203</u>	<u>7</u>	<u>77,210</u>
Gross margin	66%		66%
Operating expenses	69,054	(1,233)	67,821
Operating profit	<u>\$ 8,149</u>	<u>1,240</u>	<u>9,389</u>
Operating margin	<u>7%</u>		<u>8%</u>
Income tax expense	7,981		7,981
Net income	<u>\$ 10,062</u>	<u>1,240</u>	<u>11,302</u>
Less: Net loss attributable to non-controlling interests	(84)	-	(84)
Net income attributable to Changyou.com Limited	<u>\$ 10,146</u>	<u>1,240</u>	<u>11,386</u>
Net margin attributable to Changyou.com Limited	<u>9%</u>		<u>10%</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.19</u>		<u>0.21</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,656</u>		<u>53,682</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.

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		
	GAAP	Non-GAAP adjustments (a)	
		Share-based compensation expense (c)	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:

(c) 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 Dec. 31, 2017		
	GAAP	Non-GAAP adjustments(a)	
		Share-based compensation expense (b)	Non-GAAP
Online game gross profit	\$ 92,286	1	92,287
Online advertising gross profit	4,457	-	4,457
Cinema advertising gross profit	983	-	983
IVAS gross profit	1,045	-	1,045
Gross profit	<u>\$ 98,771</u>	<u>1</u>	<u>98,772</u>
Gross margin	68%		68%
Operating expenses	63,496	(169)	63,327
Operating profit	<u>\$ 35,275</u>	<u>170</u>	<u>35,445</u>
Operating margin	24%		25%
Income tax expense	11,489		11,489
Net income	<u>\$ 34,101</u>	<u>170</u>	<u>34,271</u>
Less: Net loss attributable to non-controlling interests	<u>(105)</u>	<u>3</u>	<u>(102)</u>
Net income attributable to Changyou.com Limited	<u>\$ 34,206</u>	<u>167</u>	<u>34,373</u>
Net margin attributable to Changyou.com Limited	24%		24%
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 0.64</u>		<u>0.64</u>
ADSS used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,544</u>		<u>53,701</u>

CHANGYOU.COM LIMITED
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COMPARABLE GAAP MEASURES
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	<u>Twelve Months Ended Dec. 31, 2018</u>		
	<u>Non-GAAP adjustments (a)</u>		
	<u>GAAP</u>	<u>Share-based compensation expense (c)</u>	<u>Non-GAAP</u>
Online game gross profit	\$ 328,807	(31)	328,776
Online advertising gross profit	14,493	-	14,493
Cinema advertising gross loss	(19,031)	-	(19,031)
IVAS gross profit	666	-	666
Gross profit	<u>\$ 324,935</u>	<u>(31)</u>	<u>324,904</u>
Gross margin	<u>67%</u>		<u>67%</u>
Operating expenses	<u>224,954</u>	<u>6,430</u>	<u>231,384</u>
Operating profit	<u>\$ 99,981</u>	<u>(6,461)</u>	<u>93,520</u>
Operating margin	<u>21%</u>		<u>19%</u>
Income tax expense	64,467		64,467
Net income	<u>\$ 83,925</u>	<u>(6,461)</u>	<u>77,464</u>
Less: Net loss attributable to non-controlling interests	<u>(407)</u>	<u>-</u>	<u>(407)</u>
Net income attributable to Changyou.com Limited	<u>\$ 84,332</u>	<u>(6,461)</u>	<u>77,871</u>
Net margin attributable to Changyou.com Limited	<u>17%</u>		<u>16%</u>
Diluted net income attributable to Changyou.com Limited per ADS \$	<u>1.57</u>		<u>1.45</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,618</u>		<u>53,690</u>

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COMPARABLE GAAP MEASURES
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	<u>Twelve Months Ended Dec. 31, 2017</u>		
	<u>Non-GAAP adjustments (a)</u>		
	<u>GAAP</u>	<u>Share-based compensation expense (b)</u>	<u>Non-GAAP</u>
Online game gross profit	\$ 386,759	73	386,832
Online advertising gross profit	18,469	-	18,469
Cinema advertising gross profit	6,475	-	6,475
IVAS gross profit	4,772	-	4,772
Gross profit	<u>\$ 416,475</u>	<u>73</u>	<u>416,548</u>
Gross margin	<u>72%</u>		<u>72%</u>
Operating expenses	<u>325,994</u>	<u>(17,320)</u>	<u>308,674</u>
Operating profit	<u>\$ 90,481</u>	<u>17,393</u>	<u>107,874</u>
Operating margin	<u>16%</u>		<u>19%</u>
Income tax expense	40,767	-	40,767
Net income	<u>\$ 81,839</u>	<u>17,393</u>	<u>99,232</u>
Less: Net loss attributable to non-controlling interests	<u>(26,995)</u>	<u>12</u>	<u>(26,983)</u>
Net income attributable to Changyou.com Limited	<u>\$ 108,834</u>	<u>17,381</u>	<u>126,215</u>
Net margin attributable to Changyou.com Limited	<u>19%</u>		<u>22%</u>
Diluted net income attributable to Changyou.com Limited per ADS \$	<u>2.04</u>		<u>2.36</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,285</u>		<u>53,476</u>