



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

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2019	Sep. 30, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Revenue:					
Online game	\$ 131,689	\$ 108,012	\$ 94,106	\$ 440,902	\$ 389,790
Online advertising	3,479	2,832	4,198	13,715	19,697
IVAS	-	-	1,550	763	6,074
Total revenue	<u>135,168</u>	<u>110,844</u>	<u>99,854</u>	<u>455,380</u>	<u>415,561</u>
Cost of revenue:					
Online game (includes share-based compensation expense/ (benefit) of \$137, \$0, \$7, \$120 and \$(31), respectively)	33,181	23,285	14,499	88,991	60,983
Online advertising	1,370	1,345	1,239	5,202	5,204
IVAS	<u>2</u>	<u>-</u>	<u>1,310</u>	<u>1,195</u>	<u>5,408</u>
Total cost of revenue	<u>34,553</u>	<u>24,630</u>	<u>17,048</u>	<u>95,388</u>	<u>71,595</u>
Gross profit	100,615	86,214	82,806	359,992	343,966
Operating expenses:					
Product development (includes share-based compensation expense/ (benefit) of \$1,785, \$0, \$492, \$859 and \$(2,427), respectively)	31,378	27,874	32,566	120,585	124,166
Sales and marketing (includes share-based compensation expense/ (benefit) of \$0, \$0, \$121, \$(283) and \$(497), respectively)	15,343	17,870	7,300	49,485	34,015
General and administrative (includes share-based compensation expense/ (benefit) of \$1,246, \$(7), \$620, \$609 and \$(3,506), respectively)	6,930	5,640	6,419	22,683	25,151
Goodwill impairment and impairment of intangible assets acquired as part of acquisition of a business	-	-	16,369	-	16,369
Total operating expenses	<u>53,651</u>	<u>51,384</u>	<u>62,654</u>	<u>192,753</u>	<u>199,701</u>
Operating profit	46,964	34,830	20,152	167,239	144,265
Interest income, net	3,857	3,996	6,653	14,102	24,206
Foreign currency exchange gain/ (loss)	(659)	1,375	67	1,875	1,320
Other income, net	<u>3,074</u>	<u>5,914</u>	<u>3,172</u>	<u>14,477</u>	<u>23,436</u>
Income before income tax expense	53,236	46,115	30,044	197,693	193,227
Income tax expense/ (benefit)	<u>(5,935)</u>	<u>11,858</u>	<u>7,982</u>	<u>20,077</u>	<u>64,467</u>
Net income from continuing operations	59,171	34,257	22,062	177,616	128,760
Net loss from discontinued operations, net of tax	-	(2,706)	(12,000)	(33,998)	(44,835)
Net income	59,171	31,551	10,062	143,618	83,925
Less: Net loss from continuing operations attributable to non-controlling interests	(236)	(29)	(84)	(542)	(407)
Net loss from discontinued operations attributable to non-controlling interests	-	-	-	-	-
Net income from continuing operations attributable to Changyou.com Limited	59,407	34,286	22,146	178,158	129,167
Net loss from discontinued operations attributable to Changyou.com Limited	-	(2,706)	(12,000)	(33,998)	(44,835)
Net income attributable to Changyou.com Limited	\$ 59,407	\$ 31,580	\$ 10,146	\$ 144,160	\$ 84,332
Basic net income/ (loss) attributable to Changyou.com Limited per ADS	\$ 1.11	\$ 0.59	\$ 0.19	\$ 2.69	\$ 1.59
From continuing operations	1.11	0.64	0.42	3.33	2.43
From discontinued operations	<u>-</u>	<u>(0.05)</u>	<u>(0.23)</u>	<u>(0.64)</u>	<u>(0.84)</u>
ADSSs used in computing basic net income attributable to Changyou.com Limited per ADS	<u>53,632</u>	<u>53,618</u>	<u>53,233</u>	<u>53,491</u>	<u>53,085</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	\$ 1.10	\$ 0.59	\$ 0.19	\$ 2.68	\$ 1.57
From continuing operations	1.10	0.64	0.41	3.31	2.41
From discontinued operations	<u>-</u>	<u>(0.05)</u>	<u>(0.22)</u>	<u>(0.63)</u>	<u>(0.84)</u>
ADSSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,962</u>	<u>53,677</u>	<u>53,656</u>	<u>53,744</u>	<u>53,618</u>



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

	<u>As of Dec. 31, 2019</u>	<u>As of Dec. 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94,433	\$ 454,305
Restricted cash	-	2,340
Accounts receivable, net	55,829	40,627
Short-term investments	211,923	190,068
Loans between Changyou and Sohu	88,317	80,907
Prepaid and other current assets	1,128,921	697,573
Current assets associated with discontinued operations	-	34,324
Total current assets	<u>1,579,423</u>	<u>1,500,144</u>
Non-current assets:		
Fixed assets, net	159,713	170,396
Goodwill	10,257	10,257
Intangible assets, net	8,056	13,856
Deferred tax assets	14,072	13,467
Restricted time deposits	-	243,910
Loans between Changyou and Sohu	71,672	72,852
Other assets, net	28,492	12,523
Non-current assets associated with discontinued operations	-	398
Total non-current assets	<u>292,262</u>	<u>537,659</u>
TOTAL ASSETS	<u>\$ 1,871,685</u>	<u>\$ 2,037,803</u>
LIABILITIES		
Current liabilities:		
Receipts in advance and deferred revenue	\$ 36,414	\$ 40,966
Accounts payable and accrued liabilities	1,261,061	729,158
Tax payables	18,577	17,715
Current liabilities associated with discontinued operations	-	101,105
Total current liabilities	<u>1,316,052</u>	<u>888,944</u>
Long-term liabilities:		
Deferred tax liabilities	93,907	83,026
Long-term tax payable	13,220	13,438
Long-term bank loans	-	220,000
Other long-term liabilities	850	751
Total long-term liabilities	<u>107,977</u>	<u>317,215</u>
Total liabilities	<u>1,424,029</u>	<u>1,206,159</u>
SHAREHOLDERS' EQUITY		
Changyou.com Limited shareholders' equity	446,289	829,735
Non-controlling interests	1,367	1,909
Total shareholders' equity	<u>447,656</u>	<u>831,644</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,871,685</u>	<u>\$ 2,037,803</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, 2019		
	Non-GAAP adjustments (a)		
	GAAP	Share-based compensation expense (b)	Non-GAAP
Online game gross profit	\$ 98,508	137	98,645
Online advertising gross profit	2,109	-	2,109
IVAS gross loss	(2)	-	(2)
Gross profit	<u>\$ 100,615</u>	<u>137</u>	<u>100,752</u>
Gross margin	<u>74%</u>		<u>75%</u>
Operating expenses	<u>53,651</u>	<u>(3,031)</u>	<u>50,620</u>
Operating profit	<u>\$ 46,964</u>	<u>3,168</u>	<u>50,132</u>
Operating margin	<u>35%</u>		<u>37%</u>
Income tax benefit	<u>(5,935)</u>		<u>(5,935)</u>
Net income from continuing operations	<u>59,171</u>	<u>3,168</u>	<u>62,339</u>
Net loss from discontinued operations, net of tax	<u>-</u>	<u>-</u>	<u>-</u>
Net income	<u>\$ 59,171</u>	<u>3,168</u>	<u>62,339</u>
Less: Net loss from continuing operations attributable to non-controlling interests	<u>(236)</u>	<u>-</u>	<u>(236)</u>
Net loss from discontinued operations attributable to non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>
Net income from continuing operations attributable to Changyou.com Limited	<u>59,407</u>	<u>3,168</u>	<u>62,575</u>
Net loss from discontinued operations attributable to Changyou.com Limited	<u>-</u>	<u>-</u>	<u>-</u>
Net income attributable to Changyou.com Limited	<u>\$ 59,407</u>	<u>3,168</u>	<u>62,575</u>
Net margin from continuing operations attributable to Changyou.com Limited	<u>44%</u>		<u>46%</u>
Diluted net income attributable to Changyou.com Limited per ADS	<u>\$ 1.10</u>		<u>1.11</u>
From continuing operations	<u>1.10</u>		<u>1.11</u>
From discontinued operations	<u>-</u>		<u>-</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,962</u>		<u>56,141</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, 2019		
	Non-GAAP adjustments (a)		
	GAAP	Share-based compensation expense (c)	Non-GAAP
Online game gross profit	\$ 84,727	-	84,727
Online advertising gross profit	1,487	-	1,487
IVAS gross loss	-	-	-
Gross profit	<u>\$ 86,214</u>	<u>-</u>	<u>86,214</u>
Gross margin	<u>78%</u>		<u>78%</u>
Operating expenses	<u>51,384</u>	<u>7</u>	<u>51,391</u>
Operating profit	<u>\$ 34,830</u>	<u>(7)</u>	<u>34,823</u>
Operating margin	<u>31%</u>		<u>31%</u>
Income tax expense	<u>11,858</u>		<u>11,858</u>
Net income from continuing operations	<u>34,257</u>	<u>(7)</u>	<u>34,250</u>
Net loss from discontinued operations, net of tax	<u>(2,706)</u>	<u>-</u>	<u>(2,706)</u>
Net income	<u>\$ 31,551</u>	<u>(7)</u>	<u>31,544</u>
Less: Net loss from continuing operations attributable to non-controlling interests	(29)	-	(29)
Net loss from discontinued operations attributable to non-controlling interests	-	-	-
Net income from continuing operations attributable to Changyou.com Limited	34,286	(7)	34,279
Net loss from discontinued operations attributable to Changyou.com Limited	(2,706)	-	(2,706)
Net income attributable to Changyou.com Limited	<u>\$ 31,580</u>	<u>(7)</u>	<u>31,573</u>
Net margin from continuing operations attributable to Changyou.com Limited	<u>31%</u>		<u>31%</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 0.59</u>		<u>0.59</u>
From continuing operations	0.64		0.64
From discontinued operations	(0.05)		(0.05)
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,677</u>		<u>53,681</u>

Note:

(c) To eliminate share-based compensation expense measured using the fair value method. The downward adjustment of share-based compensation expense 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, 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
IVAS gross loss	240	-	240
Gross profit	<u>\$ 82,806</u>	<u>7</u>	<u>82,813</u>
Gross margin	<u>83%</u>		<u>83%</u>
Operating expenses	62,654	(1,233)	61,421
Operating profit	<u>\$ 20,152</u>	<u>1,240</u>	<u>21,392</u>
Operating margin	<u>20%</u>		<u>21%</u>
Income tax expense	7,982		7,982
Net income from continuing operations	<u>22,062</u>	<u>1,240</u>	<u>23,302</u>
Net loss from discontinued operations, net of tax	(12,000)	-	(12,000)
Net income	<u>\$ 10,062</u>	<u>1,240</u>	<u>11,302</u>
Less: Net loss from continuing operations attributable to non-controlling interests	(84)	-	(84)
Net loss from discontinued operations attributable to non-controlling interests	-	-	-
Net income from continuing operations attributable to Changyou.com Limited	22,146	1,240	23,386
Net loss from discontinued operations attributable to Changyou.com Limited	(12,000)	-	(12,000)
Net income attributable to Changyou.com Limited	<u>\$ 10,146</u>	<u>1,240</u>	<u>11,386</u>
Net margin from continuing operations attributable to Changyou.com Limited	<u>22%</u>		<u>23%</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 0.19</u>		<u>0.21</u>
From continuing operations	0.41		0.44
From discontinued operations	(0.22)		(0.23)
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,656</u>		<u>53,682</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)

	Twelve Months Ended Dec. 31, 2019		
	Non-GAAP adjustments (a)		
	GAAP	Share-based compensation expense (b)	Non-GAAP
Online game gross profit	\$ 351,911	120	352,031
Online advertising gross profit	8,513	-	8,513
IVAS gross loss	(432)	-	(432)
Gross profit	<u>\$ 359,992</u>	<u>120</u>	<u>360,112</u>
Gross margin	<u>79%</u>		<u>79%</u>
Operating expenses	<u>192,753</u>	<u>(1,185)</u>	<u>191,568</u>
Operating profit	<u>\$ 167,239</u>	<u>1,305</u>	<u>168,544</u>
Operating margin	<u>37%</u>		<u>37%</u>
Income tax expense	<u>20,077</u>		<u>20,077</u>
Net income from continuing operations	<u>177,616</u>	<u>1,305</u>	<u>178,921</u>
Net loss from discontinued operations, net of tax	<u>(33,998)</u>	<u>-</u>	<u>(33,998)</u>
Net income	<u>\$ 143,618</u>	<u>1,305</u>	<u>144,923</u>
Less: Net loss from continuing operations attributable to non-controlling interests	<u>(542)</u>	<u>-</u>	<u>(542)</u>
Net loss from discontinued operations attributable to non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>
Net income from continuing operations attributable to Changyou.com Limited	<u>178,158</u>	<u>1,305</u>	<u>179,463</u>
Net loss from discontinued operations attributable to Changyou.com Limited	<u>(33,998)</u>	<u>-</u>	<u>(33,998)</u>
Net income attributable to Changyou.com Limited	<u>\$ 144,160</u>	<u>1,305</u>	<u>145,465</u>
Net margin from continuing operations attributable to Changyou.com Limited	<u>39%</u>		<u>39%</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 2.68</u>		<u>2.68</u>
From continuing operations	<u>3.31</u>		<u>3.31</u>
From discontinued operations	<u>(0.63)</u>		<u>(0.63)</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,744</u>		<u>54,296</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)

	Twelve Months Ended Dec. 31, 2018		
	Non-GAAP adjustments (a)		
	GAAP	Share-based compensation expense (c)	Non-GAAP
Online game gross profit	\$ 328,807	(31)	328,776
Online advertising gross profit	14,493	-	14,493
IVAS gross profit	666	-	666
Gross profit	<u>\$ 343,966</u>	<u>(31)</u>	<u>343,935</u>
Gross margin	<u>83%</u>		<u>83%</u>
Operating expenses	199,701	6,430	206,131
Operating profit	<u>\$ 144,265</u>	<u>(6,461)</u>	<u>137,804</u>
Operating margin	<u>35%</u>		<u>33%</u>
Income tax expense	64,467		64,467
Net income from continuing operations	<u>128,760</u>	<u>(6,461)</u>	<u>122,299</u>
Net loss from discontinued operations, net of tax	<u>(44,835)</u>	<u>-</u>	<u>(44,835)</u>
Net income	<u>\$ 83,925</u>	<u>(6,461)</u>	<u>77,464</u>
Less: Net loss from continuing operations attributable to non-controlling interests	(407)	-	(407)
Net loss from discontinued operations attributable to non-controlling interests	-	-	-
Net income from continuing operations attributable to Changyou.com Limited	129,167	(6,461)	122,706
Net loss from discontinued operations attributable to Changyou.com Limited	<u>(44,835)</u>	<u>-</u>	<u>(44,835)</u>
Net income attributable to Changyou.com Limited	<u>\$ 84,332</u>	<u>(6,461)</u>	<u>77,871</u>
Net margin from continuing operations attributable to Changyou.com Limited	<u>31%</u>		<u>30%</u>
Diluted net income/ (loss) attributable to Changyou.com Limited per ADS	<u>\$ 1.57</u>		<u>1.45</u>
From continuing operations	2.41		2.29
From discontinued operations	<u>(0.84)</u>		<u>(0.84)</u>
ADSs used in computing diluted net income attributable to Changyou.com Limited per ADS	<u>53,618</u>		<u>53,690</u>