

CryptoLogic Inc.
2001 First Quarter Conference Call
April 16, 2001

Operator: Good morning ladies and gentlemen, welcome to the CryptoLogic first quarter 2001 results conference call. I'd now like to turn the meeting over to Mr. Noelting. Please go ahead sir.

Jean Noelting: Good morning, welcome to CryptoLogic's first quarter 2001 conference call. I am Jean Noelting, President and CEO of CryptoLogic. I am joined by Harvey Solursh, Chief Financial Officer, Nelson Lee, Director of Finance, Nancy Chan-Palmateer, Director of Communications and Andrew Rivkin, Board member and former CEO.

After about 100 days on the job, I am truly delighted to report that CryptoLogic is making great progress to drive enhanced shareholder value. You will see this in the financial results that we review this morning, which have surpassed analysts' expectations, as well as strategic initiatives for accelerated growth.

Afterwards we would be pleased to take any questions.

Please be reminded that CryptoLogic reports in US dollars.

CryptoLogic has said at last year end that we would target 20% organic growth and net margin improvement to 45% for the 2001 year. I am pleased to report that we have cleared those hurdles in the first quarter.

For the first quarter ended March 31, 2001, revenue was at \$10.9 million, up 32% versus the \$8.2 million in the same quarter last year. This number excludes interest income of \$800,000 in 2001 versus \$700,000 in last year's quarter. Historically, interest income was part of total revenue, but has now been reclassified and is shown below income from operations in the income statement.

The company's net income rose 25% to \$5.2 million compared to \$4.2 million in the 2000 first quarter. This resulted in earnings per share of \$0.37 in 2001 compared to \$0.38 in the prior year period. On a fully diluted basis, this translated into \$0.34 per share in the first quarter of 2001 versus \$0.27 last year. Net margins came in at 48%, increasing from 42% in the fourth quarter of 2000. Please remember however that the interest income is now below the income from operations.

CryptoLogic continued to generate positive cash flow from operations, recording \$5.7 million in the first quarter. This increased our total cash position to \$61 million including restricted cash as of March 31, 2001.

We continue to view CryptoLogic's share as a good value investment. During the quarter, we were in a unique position as a growing software company to offer a buy back of up to 1 million shares through a substantial issuer bid. Subsequent to the quarter, CryptoLogic successfully repurchased about 978,000 shares at C\$19.00 per share, an investment of about C\$19 million or US\$12 million.

We will continue to take advantage of the company's normal course issuer bid, which expires on May 16, 2001. Under this program, the company has bought back more than 460,000 shares or over 80% of the permitted amount, which leaves approximately 97,000 shares remaining.

During the quarter, CryptoLogic also invested just under \$1 million to acquire 9.9% of dot com Entertainment, a rapidly growing provider of Java-based bingo and casino software and we will continue to monitor the progress of that company.

The legislative climate has warmed considerably since last year. CryptoLogic has always maintained that regulation of Internet gaming was the responsible solution for players, operators and governments. We're pleased to see major nations around the world coming to the same conclusion.

In the past few months, there has been very promising actions in the UK and the US towards the regulations. The British government introduced tax-friendly legislation to encourage major UK sports books, such as William Hill, to repatriate their Internet businesses. Nevada and New Jersey tabled favourable legislation. There's considerable support for the Nevada bill from regulators, casino operators and most of the state's legislators and that would see this become the first US law to legalize online gaming.

We spent the first quarter refining our strategy and driving organic growth. Today's results demonstrate that we're on track with our plan. The remaining part of the year will be more externally focused.

CryptoLogic continues to select name-brand customers, centering initially in Europe and Asia. We're also actively pursuing complementary acquisitions that would leverage our cash and expand the company into exciting new gaming verticals such as lotteries, bingo and sports book that will appeal to the mass consumer. The pipeline looks very promising and we expect to be able to announce new opportunities in the next few quarters.

CryptoLogic will also give important emphasis to marketing, customer care and ongoing compliance efforts, which will provide considerable advantage in an increasingly competitive and regulated marketplace. We believe only the upper tier of the more than 1,400 gaming properties on the Internet today are profitable. Great entertainment and service will be the market differentiators. CryptoLogic intends to be ready with consumer-oriented features such as our newly introduced pound sterling

version and progressive games to ensure that our licensees are among the top ranks.

In a declining stock market, our share price has doubled due to the company's positive momentum. We feel there remains considerable upside given our strong fundamentals and an exciting growth picture. CryptoLogic remains a unique opportunity in the technology sector continuing to deliver leadership, growth and earnings.

We are now pleased to answer any of your questions. Thank you.

Operator: Thank you. We'll poll for questions today using our quick queue polling feature. If you have a question, please press 1 on your touch tone telephone. If you are using a speaker phone, please pick up the handset and then press 1. Should you wish to cancel your question at any time, please press the number sign.

Please press 1 at this time if you have a question. Once again please press 1 if you have a question. If you are using a speaker phone, please lift the handset and then press 1.

Our first question at this time comes from Jack Pitts from Steadfast Financial. Please go ahead.

Jack Pitts: I'm wondering if you could give us some information on your tax rate. I know it's been fluctuating a lot in the last year or so, what do you think your future tax rate will be long term?

Jean Noelting: I will redirect this question to Harvey who is our CFO. He will give you some of the details. Obviously the tax rate is a function of the passive and active income that we generate. Harvey?

Harvey Solursh: The tax rate this quarter is as expected. As licensing revenue increases our tax rate does come down. Our passive income is taxed at the high rate of 44% and our licensing revenue is at 4.25%. We expect the future tax rate will average out to about 10%.

Jack Pitts: Okay, thanks a lot.

Operator: Thank you. Our next question comes from Joey Roa from Lightyear Capital. Please go ahead.

Joey Roa: Good morning, congratulations on some great results there guys.

Jean Noelting: Thank you.

Joey Roa: I have a couple of quick questions. First of all, do you have any additional plans for more share buy-backs after this issuer bid is done? I understand you have 97,000 left, but do you plan on doing some additional purchases?

Jean Noelting: We plan to continue with our normal course issuer bid. That as you know allows us to buy 5% per year. At this time we see a number of attractive opportunities in the marketplace in other gaming verticals as well as other geographies and we will fully explore those as a matter of priority.

Joey Roa: Just maybe on a follow-up on that Jean is that looking at dot com Entertainment, I notice they had revenues of about US\$1.8 million for December 2000. What are you looking for in terms of a decision point before you actually complete the acquisition of that company?

Jean Noelting: Well, at this time we have not made any decision to go with an acquisition or a further investment. We believe it's a very solid company. It is in a market place that we have a great deal of interest and we have some software under development of our own. There may be some interesting options for us on a joint venture that may involve some of our e-commerce options. What we've decided to do is just take a look at how they develop early this year before we go further into a more in-depth discussion.

Joey Roa: So there's no specific metric that you can release at this point that you're looking for?

Jean Noelting: No.

Joey Roa: Okay. Maybe just one final question is that in terms of planning to use land-based licensees for this year, we were hoping to get something for Q1, Q2. Any comments on that progression?

Jean Noelting: Yes, we are very pleased with our developments with some very strong potential customers. We expect to have an announcement to make in the next 30 days for our first announcement of this year and as we've discussed, we're looking at 4 or 5 large names this year. We're very much on track to achieve that.

Joey Roa: Thank you very much.

Jean Noelting: Thank you.

Operator: Thank you. Our next question at this time comes from Brandon Osten of Sprott Securities. Please go ahead.

Brandon Osten: A few questions here. First of all normally there is a summer slowdown as we head into the 2 quarters of the summer. Were you seeing any of that at the end of March. I guess it's still early days in April, but is that trend continuing?

Jean Noelting: There is seasonality with the user base that our licensees have. There's no question that seasonality is related to the summer months where we expect a little bit of a slowdown. We also benefited in the first quarter from the second. There was very strong organic growth from William Hill, which started small in the first quarter of last year and gathered steam rather quickly. So we're very pleased with the revenue at +32%. We are not expecting it for the second quarter, but we are expecting revenues on average in the 20% to 25% throughout the year. There will be a little bit of a seasonality, at the same time we have just launched our progressive jackpots.

We will be announcing a site that will tie in our jackpots and a number of our licensees together. We're exploring some new options for lowering the cost of acquisition of new customers to our licensees by having some content sites play-for-fun that may give us an opportunity to bring more people on board. So a number of initiatives will be coming, seasonality will remain a bit of a factor.

Brandon Osten: On the economic side, there's talk that economic fundamentals are weakening throughout the world. Are you seeing any trends that would affect your business? For example, are you seeing your licensees' customers betting less on a per hand basis or on a per visit basis? Are you seeing a decline in the amounts of new customers signing up?

Jean Noelting: The fundamentals of the business remain very strong. The gaming business is one that is counter-cyclical as you probably know. For example, Vegas is now very much a business destination. But there's a number of other factors such as cost of airfares that plays a major factor. You don't have that on the Internet so we don't see the slowdown as having a major impact.

Brandon Osten: And competitively is anyone new popping up or is it still mainly Boss Media?

Jean Noelting: Well there's 4 major providers of software in this space. Boss Media is public, but there are 2 others that are very active. One is Access from Australia, the other one is Microgaming based in London but having a lot of operations in South Africa. All of them are active, but I'm very pleased with our progress with land-based operators and I think that's the key.

Brandon Osten: Okay. Thanks a lot.

Jean Noelting: Thank you.

Operator: Thank you. Our next question comes from Scott Preston from Research Capital. Please go ahead.

Scott Preston: Hi, great quarter. I'm just wondering if you could break down your revenue on a percentage basis, what percentage is license and such?

Jean Noelting: Absolutely. The revenue from licensing is \$10.1 million and the interest income is \$800,000. Because we did not sign any new licensees there hasn't been any income that came from up front customization.

Scott Preston: On the acquisitions, what kind of size are you looking for there? Are you going to be looking for certain technology functionality or customer base and which geographies are highest on your list?

Jean Noelting: There's no question that both Europe and Asia are very important to us. There's no question that the expansion into new gaming verticals is also very attractive. We have now built with our licensees over 700,000 people and there's more options for them than just casino.

So our objective will be to expand that as well as having a presence in Europe and a presence Asia where we would see a lot of growth and where we want to make sure that we have good operations to be able to service those customers properly.

Scott Preston: Okay. Are these going to be smaller acquisitions of \$1 or \$2 million or larger in scale?

Jean Noelting: At this time we're not contemplating anything that is very large in scale. Acquisitions would be funded internally and this allows us to do two things. It allows us to build our management team more quickly because when we acquire a company, we want to acquire the management team. Also it gives us a quick entry into a new gaming vertical. So it gives us time and a chance to build up the management team.

Scott Preston: A last question. Assuming passage of the laws in the US and these markets become open to you, does that become a priority or would Europe and Asia still be the focus then?

Jean Noelting: It will become a priority, but if you look at Nevada, the Assembly is expected to pass legislation, then the Nevada Gaming Commission has to draft the law. They've given themselves up to 12 months. We don't think it will take that long but we don't see anything happening before early 2002. What that means is it's important for us to have contact in the short term to develop our options in the US and it certainly will become a matter of priority.

Scott Preston: Okay. Alright, thanks a lot.

Jean Noelting: There is one last point of clarification that Andrew wanted to comment on so just let me pass you Andrew.

Andrew Rivkin: Yes. Jean said that revenue was \$10.1 million. It was actually \$10.9 million.

Harvey Solursh: No, it's actually \$10.9 million plus the interest income. Total of \$11.7 million.

Jean Noelting: Is that clear Scott?

Scott Preston: Yeah, so you guys haven't got service and support.

Harvey Solursh: Well that's included in the licensing revenue.

Scott Preston: I see, okay.

Harvey Solursh: So it's \$10.9 million plus \$800,000 is a total of \$11.7 million compared with \$8.9 million in 2000.

Scott Preston: Thank you.

Operator: Thank you. At this time our next question comes from Peter Swan from Pacific Growth Equity. Please go ahead.

Peter Swan: Hi, the quarter looks good. Just a couple of quick questions here. First, I just want to know what you ended up the quarter with as far as the number of users with your licensees. Secondly, I wanted to get a feel for the kind of mix of revenue, where the customers were coming from?

Traditionally, you've kind of given us a little bit of feel for that. I just want to know what percentage is coming from North America. For my third question, I just want to know when you hope to have some additional game features available for your customers. Are you talking about bingo, are you talking about race, maybe sports book, all these things?

Jean Noelting: First in terms of the total user base, we have now surpassed the 750,000 number in totality so there's been some very solid growth during the first quarter. In terms of the US, the users continue to be about 60% of the total. In 2000 we saw the European users double to 14%. We expect that there will be a strong growth of the European users particularly with the launch for example of the pound casino of William Hill, which happened during the first quarter of this year. We expect the growth of users outside of North America to be faster but the US is so large it will continue to dominate for a long time.

In terms of new gaming verticals, we would like to be into a new gaming vertical within the next two quarters with one of our licensees. We believe that is realistic and that is our objective. When exactly that will happen I can't predict. We would like sooner rather than later but there's no question that launching for the fall into a new gaming vertical would be an important target for us.

Peter Swan: Great, thanks.

Operator: Thank you. At this time our next question is from a private investor, Stephen Freedhoff. Please go ahead.

Stephen Freedhoff: Thank you. Mr. Noelting, you have been on the job all of 100 days as you mentioned. Could you comment on any changes there might have been in terms of revenue and bottom line on a per capita basis of staff employed by the company?

Jean Noelting: We have at this time about 115 employees. I think we're up in the quarter approximately 5 to 8 employees versus last year. There are still a few positions that we need to fill on the technology side. We have 2 important thrusts as you know. One is the development of our new games, and the new release, which we said would happen in the Q3 of this year.

There is also our efforts towards compliance. We expect to complete the Australian compliance in June or maybe July. But that being said, there may be a few more positions on the sales side to make sure that we have people on the job in the different geographies of Asia, Europe and possibly South America. There won't be significant growth in addition to that.

Stephen Freedhoff: Thank you.

Operator: Thank you. At this time our next question comes from James Cappello from Sidoti & Co. Please go ahead.

James Cappello: A couple of questions here. The first one, are you guys prepared to give 2002 guidance at this time?

Jean Noelting: Not at this time. I think we are early in 2001, it's positive, let us get through the second quarter and then we should be in a better position to give an estimate for what next year will look like.

James Cappello: Okay. In terms of what happened this quarter, you had around \$5 million in software development quarter cost. Should I look for that to increase at the same rate it did in the first quarter from the fourth quarter?

Jean Noelting: No, I think it will be more stable.

James Cappello: Okay and in terms of the revenue growth it came out around \$10.9 million. Do you think you're going to be able to get sequential growth in the next 2 quarters?

Jean Noelting: The revenue growth this quarter was substantial as you know from version 4 as well as William Hill. William Hill had a very strong second quarter last year so I think for us to generate sequential growth is going to be very aggressive. That is an objective, but we're looking more at something that would be similar to what we have seen and in addition to that is the impact of seasonality.

James Cappello: Right and on the front of what's going to drive the quarterly revenue going forward, what is going on with the licensees in terms of who has version 4.0? Do all 20 operating licensees have version 4.0?

Jean Noelting: No, not all licensees have version 4.0. But what we have seen is more and more polarization of the business as the market becomes more competitive. What we see is our larger players doing very well, our smaller players find the environment to be more and more competitive. So there's a lot of work that we're doing with them in terms of getting them back on track. Version 4 may be one way. There may be some that may become affiliates of larger casinos but all the larger casinos are already on version 4.

James Cappello: But in terms of going to the second quarter here, shall we still see some revenue growth from 4.0 users catching on and the general stickiness of 4.0?

Jean Noelting: Yes, there will be some. We will continue the roll out but you won't see the same magnitude of the impact simply because the larger guys have already been transferred.

James Cappello: In terms of G & A around \$785,000, \$783,000, should I look for that to be incrementally marginal because you're going to hire a few people here and here?

Jean Noelting: Yes it will be marginal, the same order of magnitude absolutely.

James Cappello: Okay and then the tax rate around 10%, it should average around 10% in 2001. In terms of 5.0, how is that coming along and when is your date for rolling out 5.0 set for?

Jean Noelting: We want to have 5.0 out by the end of the third quarter. That remains our objective. We're certainly quite excited about this new release. There will be a number of new features. We're looking at bringing the progressive fully in, the multi-currency will be fully in also. We expect to bring elements such as

the tournaments and maybe a new gaming vertical. So it's a significant undertaking but progress is moving well towards 5.0.

James Cappello: Excellent. And 5.0 is also going to have wireless too. Correct?

Jean Noelting: We are looking at wireless. At this time, the way we will approach wireless is going to be licensee driven and as the requirements are being clarified, we will make it available. But it's not something we're going to develop as a pioneer without a very clear objective as to what we need to do on wireless.

James Cappello: Just going back briefly to 4.0, is anyone in the second quarter of your licensees going to a CD mailer or any kind of promotional for 4.0?

Jean Noelting: What we will see is some distribution in the second quarter, that will help us. So, yes there will be some marketing support behind the launch of 4.0.

James Cappello: How are your options with Jupiter's looking right now with the current legislative environment not in your favour?

Jean Noelting: In Australia, the moratorium comes out on May 19. What we have seen from the regulators in Australia is a proposal for new legislation, which would permit online gaming but only for users outside of Australia. There's still considerable work that needs to be done for this to pass. As you probably know that bill would cover also the sports book operator, there's a considerable amount of players coming from and within Australia. Before that passes through I think there will be few more iterations. But generally the concept is that there will be a new legislation replacing the moratorium. Whether or not it happens right in May remains to be seen but we expect by mid-year to be in a position to work with Jupiters with an offering of an online casino.

James Cappello: When you say to be able to work with them that might mean setting Jupiters offshore?

Jean Noelting: That might mean setting them up in a regulated Australian environment but targeting the market outside of Australia.

James Cappello: I see. In terms of signing new licensees, it sounds like you're going after Europe first but how about some play-for-free in the States? Are you going to announce anything on that front soon?

Jean Noelting: Yes. Play-for-free is an important part of our thrust moving forward and so will Java. We're looking to have Java as part of our next version, not in a full suite of games but to have a few options to allow for players who want to start playing very quickly when they start the registration process to have that option. Play-

for-fun will allow us to get into the game in the US and also will allow us and our licensees to have an opportunity to get new users at the lower cost of acquisition. These are all important thrusts that are underway, under discussion as we speak.

James Cappello: Jean, when you talk about getting 4 to 5 new licensees this year, are those revenue generating licensees so you're excluding any kind of play-for-free in America?

Jean Noelting: Yes.

James Cappello: Okay, thank you very much.

Operator: Thank you. Our next question comes from David Hartley from First Associates. Please go ahead.

David Hartley: Just noticing on the net income margin that it has actually fallen from last year from 50% to 48%. What can we expect going forward? Last year in Q2 you had 56%. It doesn't seem you'll be able to get that in Q2 this year. Do you have any guidance there? That will be my first question.

My second question is could you give us a little colour in the number of wagers or bets or what have been made and the dollar number? And my last question do you have any plans with dot com Entertainment group for the new licensees where you will be adopting some of their bingo technology and paying fees on that? If the revenues of dot com go up significantly in Q1 and Q2 do you risk seeing the price of that stock or the price of purchasing the rest of the company going, a lot higher than what it could be now?

Jean Noelting: First on the margin, last year was a year of transition where we basically had two periods, the period before which infrastructure was put in place and the period afterward that infrastructure was put in place. If you look at the margins that we achieved after we had strengthened our operations in the Caribbean and in Europe and there was some more management coming on board. The margin had dipped and has come back up very nicely as we've shown sequentially between Q4 of last year at 42% and Q1 of this year at 48%. We're very pleased with this progress and while there was a period of time in 1999 for example where the margin was considerably higher, the company is significantly sturdier in terms of infrastructure.

The reality is when we speak to large, land-based operators these are people for which having a strong level of compliance, having a strong level of customer care, is much more important than having the latest sets of graphics which may be very exciting for the early adopters but not for the early majority.

David Hartley: Okay.

Jean Noelting: That is important to set in place. We're very pleased with our margin. We went public to say that it was going to be about 45% plus. We will clear that hurdle this year. I think you'd be hard pressed to find companies who can do that. We're fortunate to be in that situation and we will work hard to protect it.

On the issue of dot com, there is no question that when we started discussion with them the stock was at a low value and so was ours. We saw a certain value for the company. The management saw a significant increase in their value and at this time what we decided to do is to take a position because we like what we see and just see how it develops. Even if there was a run up on the stock and you saw one a lot driven by some of the bulletin boards on the Net based on our investments, I don't think we will be in a position that we would not be happy. We're looking at investments that are accretive, they're difficult to find but that would certainly strengthen our management team and add some Java development to our team. That being said, you can never predict whether or not you can do those deals and at this time I won't comment further. It might also be in the form of a strategic partnership, that remains an option. What we're doing at this time is looking at how things are developing. It's a strong company, we'll see how things unfold.

David Hartley: Okay, and just the number of wagers and the dollars wagered. First of all do you have a number for the year last year and for Q1 this year?

Jean Noelting: I do not have that information and we can get back to you on the specifics.

David Hartley: That would be great. Finally, just getting back to the margins, your software and development you mentioned to another caller that would remain stable. Do you mean that as a percentage of licensing revenues?

Jean Noelting: Yes.

David Hartley: Yes, okay, great. Thank you very much.

Operator: Thank you. Our next question comes from a private investor, Michel Savard. Please go ahead.

Michel Savard: Yes, good morning. In the last conference call you mentioned about the interest in going to the European market listing. Did you make any steps towards being listed there?

Jean Noelting: Yes, before I answer the question let me just announce that Jenny Solursh who is our Senior Vice-President has joined us for this conference call. Jenny has a long track record with the company so she might help in some of the questions.

With respect to the European thrust, we have during the first quarter of this year looked at a number of options. We have not finalized the position but yes it is an important priority for us this year. We believe that the market is very favourable in Europe and given that we're developing a number of licensees there, we believe that it's important for us to have a stronger presence and be represented in terms of an exchange. So no finalization but we're looking at it seriously.

Michel Savard: This is a question that comes back every conference call. With all the money that you've spent on buy-backs and all that, I feel the stocks doesn't move up that much except maybe this time because it was so low and I bought my shares at \$25.00 in February 98.

Why are you still against giving dividends to the shareholders since you have so much cash and your margin of profit is always high? Any chance that one day you'll give dividends to your shareholders?

Jean Noelting: It's a very interesting question of philosophy of management. The market in Internet gaming is growing at on average 40% and that's the projection for the next 2 or 3 or 4 years actually. In a market that grows that much there are tremendous opportunities for a company that has a strong balance sheet to make a move. We believe that we're in such a position and we expect this year to start to demonstrate it.

I assure you that I have absolutely no interest to continue to accumulate cash and leave it in the bank accumulating 5% and maybe 4% if interest rates continue to tumble and that being taxed at a high level. If at some point we come to the realization that it is not possible for us to make such a move, we will certainly reconsider but our objective for the next 3 years is to have very very strong growth and to achieve that goal we will need some cash. We have some in the bank, we will put it to good use.

Michel Savard: All right, thank you.

Operator: Thank you. Our next question comes from Alex Silverman from Special Situation Fund. Please go ahead.

Alex Silverman: Two quick questions. First, you mentioned the launch of 5.0. I missed the date you said you hoped to launch it by.

Jean Noelting: For 5.0 our target launch is by the end of Q3. The objective is to be able to generate revenues for the Q4. So at least the start of the revenue in Q4 so that's our target.

Alex Silverman: And then a second quick question, within software development and support could you break out for us both this quarter and maybe the year ago quarter how much was actually spent on the development side and how much of it was spent on the support side?

Jean Noelting: Let me pass this to Harvey. He will have some of the details. I have the aggregate number but in terms of specifics, Harvey?

Harvey Solursh: Yes. We can give you just an idea of those two numbers.

Alex Silverman: That's fine.

Harvey Solursh: It won't be exact but they'll give you an idea. On the 3 months ended March that was about \$1.8 million on the development side for 2001. For last year it was about \$1.2 million.

Alex Silverman: So much of the increase year over year is from development.

Alex Silverman: Great, thank you.

Harvey Solursh: You're welcome.

Operator: Thank you. Our next question comes from Bob Goodwin from Jones Gable. Please go ahead.

Bob Goodwin: Just again on the software and development support, you talk about that being stable. That is in view of new licensees and new verticals coming on. Is there any risk at all as we move through the year that we see an escalation of that ahead of the commensurate revenue?

Jean Noelting: What we expect if there is an increase, a sharp increase, is that it will come from acquisitions. We do not foresee this year a dramatic ramp up in terms of the development costs to address those. We have built them into the revenue stream and we expect to go at it more from an evolution than a revolution standpoint.

Bob Goodwin: Great, thank you.

Operator: Thank you. Our next question comes from Mike Werner from Kennedy Capital. Go ahead.

Mike Werner: I have a couple of questions. You've given some guidance in terms of revenues and then some line items. Can you tell us whether you're comfortable with second quarter estimates of \$0.33 and \$1.37 for the year?

Jean Noelting: I think we're quite comfortable. We have a good start for the year. It's encouraging and we look for the balance of the year with the same level of comfort.

Mike Werner: In terms of your cash position, do you have any guidance for where you think that's going to be, barring any major acquisitions or anything by the end of the year?

Jean Noelting: Our cash position, this quarter is a cash influx of about \$5.7 million. If you factor out the buy-back as well as any acquisitions I think it's fair to expect cash flow in the neighbourhood of \$4 million to \$5 million roughly. It's difficult to predict on the acquisition front as you know. The share buy-back we still continue to see it as an attractive investment, so cash flow should be along those guidelines.

Mike Werner: Okay. In terms of the 4 or 5 licensees that you expect to get by the end of the year, are you speaking to them right now?

Jean Noelting: Oh we're in advanced discussions with a few of them, very advanced discussions.

Mike Werner: One more question about the, in terms of your filing with the SEC is there any progress to that at this point?

Nancy-Chan Palmateer: Mike, we're still reviewing that situation. What Mike's talking about is right now we're a dual-listed company filing under a multi-jurisdictional filing, where we file our Canadian documents with NASDAQ and SEC. So it is something that we are looking at. It does require a different process and some additional cost impacts, so we will continue to review that.

Mike Werner: Okay, very good. Thank you.

Jean Noelting: Alright.

Operator: Thank you. Our next question comes from Orin Hirschman from Adam Smith & Company. Please go ahead.

Orin Hirschman: Hi, congratulations. I apologize I got on a little bit late. Could you indicate when William Hill went forward with their roll out plans during the quarter, roughly which part of the quarter?

Jean Noelting: William Hill launched about mid-way through the quarter their pound casino. The impact of that launch will actually happen in Q2. They're doing their marketing as we speak. We're quite excited about it and so we haven't seen yet the impact of it but we expect solid performance from them in the second quarter of this year. The first quarter was also very solid but that was more because they were ramping up. They started in January of last year, it took them a few months to get up and this year we had a more mature base from which to build.

Orin Hirschman: Have you continued to see the other major casinos grow almost on a weekly or monthly basis as a result of the roll out?

Jean Noelting: We have seen very solid performance for the larger licensees that we have and that's very encouraging. There will be a little bit of a slowdown that we expect due to two factors. One is purely the seasonality and the second is simply that we had a little bit of an oomph from the launch of version 4.

We are also putting quite a bit of effort and emphasis on reducing cost of acquisition for new users as well as putting a lot of emphasis on customer care to improve retention and the satisfaction of our users. Those programs are investment programs which I think will deliver more towards the second half of the year, but they're certainly expected to make a significant difference to our performance.

Orin Hirschman: Can you indicate what some of those programs are and if you've at least gotten the ball rolling at all with any of them?

Jean Noelting: Oh absolutely. We are very much looking at a set of CRM software packages that we would acquire. We are finalizing a decision on that with an expected implementation date by the end of Q3 and we could have impact in Q4. We've had a number of discussions with different vendors. You may have seen there was a press release by Harrah's about a month ago which highlighted their team up with Cognos to be able to improve on their loyalty program and their ability to do data mining.

We expect to have something that is going to be absolutely state-of-the-art in that respect. I think it's important for us. It's important for our licensee. As the market is moving from a product battle to a marketing battle, these are the tools that would give us and our licensees a competitive advantage. I will even add that we had discussions with some new potential licensees as well as some large existing licensees. For example with William Hill, we've had discussions on the benefits of working more closely on such initiatives and they are as excited as we are about the potential of those new technologies. So yes, this is very much on track and the decision should be made within the next 30 to 60 days with an implementation period by Q3.

Orin Hirschman: And you indicated that when it comes to gambling in the United States it's going to be very important to have control and regulatory aspects of it. Also that you've built a lot of that for the Australian market and it needs to be transferred over here. Have you started work on that in order to prepare for the United States?

Jean Noelting: We basically are finalizing our projects in Australia. We believe there will be strong similarities but we haven't as of this point explored what's going to be required in the US. One of the reasons is that while the Assembly will pass legislation, the specifics as to how it will be regulated has not been drafted. That will be the task of the Nevada Gaming Commission.

We're looking at some consultants to get us into this process so we can understand what the requirements are, but the regulated environment of online gaming is a small community. Some of the people in Australia are very much linked to what's happening in Europe and the US and we expect to have strong similarities. Details are not known at this time.

Orin Hirschman: And in terms of what I would call inter-casino gaming amongst casinos for example for the block that have a single large prize which might attract additional gamers, any progress on that front for that particular idea? I'm not sure what it's called exactly.

Jean Noelting: Yes, we will announce by the end of the month a program of linking our casinos with progressive jackpots. We are also developing the launch of a new site where potential users can take a look at what are the options and click on one of our licensees to go join the casino and start playing on it. You might be aware that this initiative was in the final throes of testing with some of our licensees. We had awarded the largest that we know of jackpots on the web 2 or 3 weeks ago which was US\$235,000 and about a week and a half ago an extra \$80,000. That has generated a considerable amount of interest. We've seen that this progressive jackpot game has generated about 3 to 4 times the revenue of the game that it replaced.

So it is an important part of our strategy and it's exciting for users to have that option not only for the slot, but also for the progressive jackpot which is a cross between a slot and a lottery. It's progressing well and we expect to have some announcement by the end of the month on that.

Orin Hirschman: Are your licensees behind this fully, particularly the larger ones?

Jean Noelting: They're very excited about it. For those who are familiar with the land-based operation, there's precedent in place and it has really generated a tremendous amount of interest in the user base. We expect to see the same impact for online casino. It's quite spectacular to be able to play one of these slots or progressive games and win close to a quarter of a million bucks.

Orin Hirschman: And my last question is, in terms of anything that could help offset some of the seasonality, clearly if you have a release where it carries into Q1, and in Q2 as well. Is there anything else you can do to help offset some of the summer flatness that kind of happens between, typically between Q1 and Q2 and Q3?

Jean Noelting: Yes, there is a lot we can do. Whether or not we'll be able to put it all in place this year I'm not sure. But one of the things that we can have in mind is the growth in licensee and user base. Having a better balance between what's in one hemisphere versus the other hemisphere, we can launch new games, which may attract a different set of user base.

Additionally, if you segment gaming between soft gaming (which is more the lottery, bingo, slot side) towards the more hard core (which are the table games, the card games) and possibly the sports book, we're only touching a slice of that. According to three pieces of research that have been published last year casinos, represent about 40% of e-gaming today. There's considerable opportunities to go counter-seasonality by entering into those gaming verticals, by finding new licensees and by introducing some of the customer care and the retention strategies that we talked about, three important initiatives. They will start to have impact certainly some in Q2, more impact in Q3 but we expect that as we finalize this year and get into next year we'll be solidly positioned to go counter-cycle on that.

Orin Hirschman: Okay, thank you very much.

Operator: Thank you. At this time our next question comes from Murray Baker from Moneysmart. Please go ahead.

Murray Baker: Hello. Yes, I wondered if you could comment somewhat on the coverage that you're receiving by institutions in the US primarily and any steps that you're undertaking to increase perhaps exposure and coverage of your particular company?

Jean Noelting: Absolutely. Our objective is better coverage. We have focused in Q1 on finalizing our long term strategic direction and ensuring that we have solid organic growth. You'll see CryptoLogic with more of an external focus in Q2 and Q3.

The reality is that in a market that's been in flux it's difficult to get some air time and some visibility but you can be sure we'll be very active towards that front. A reality also is that from an optic standpoint this is an industry that has much better optics in Europe than in the US. So while we will continue to be active and renew our efforts, the reality is we also will have an effort going on in Europe where we may see a more favourable reception.

Murray Baker: Reputation is key in this type of industry particularly with the legislation uncertainty. I wondered if the company has any response to some of the baseless allegations by a Mr. Levy who seems to be slandering a number of the games at this time?

Jean Noelting: Well I don't want to comment on Levy. We have been subjected to some of this but we have made significant progress with large land-based operations which don't give it merit. We are developing strategies to make sure we're not subject to slander, or minimize that impact.

Murray Baker: My final question is with respect to e-commerce. I wonder if you could just comment on your plans in that area as well? I know a while back there

was talk of a spin-off and then that was sort of put on the shelf. Could you comment on your plans going forward?

Jean Noelting: Yes. We've basically shelved that project for now. We believe there's more opportunities for us to develop in the gaming side and that the market is no longer that receptive to these kinds of initiatives. We decided not to go counter-market. Things change relatively quickly. We will remain flexible but the focus of effort of this management team right now is to create value through the gaming side of the business.

Murray Baker: Okay, thanks very much.

Jean Noelting: Thank you.

Operator: Thank you. At this time there are no questions registered. I'd like to turn the meeting back over to you Mr. Noelting.

Jean Noelting: This has represented the first quarter for 2001 and the first quarter for me personally. I have to say that it's been a joy to come into this company. I've received tremendous support from the management team, from Mark, from Andrew, from Jenny, from Harvey.

We have done very well in the marketplace. We look at the rest of this year with optimism, with the expectation of some announcements later on in the quarter on some new games, and on some new licensees. We view the future with optimism. We're very pleased with the success of our substantial issuer bid. I don't think we could have timed it better and the fact that we've been able to grab most of what we've asked for is good news for everybody. Those who wanted to tender have been able to do it and those who have held on to their shares certainly share our views that this is a wonderful opportunity and we'll work hard to make sure it materializes. Thank you and we will speak to you in about one quarter.