

CryptoLogic, Inc.
2001 4th Quarter and Year-End Conference Call
February 4, 2002

Operator: Good morning ladies and gentlemen. Welcome to the CryptoLogic fourth quarter and year-end 2001 results conference call. I would now like to turn the meeting over to Mr. Jean Noelting, President and Chief Executive Officer. Please go ahead Mr. Noelting.

Jean Noelting: Thank you. Good morning ladies and gentlemen. I am Jean Noelting, President and CEO of CryptoLogic. Also in attendance are Harvey Solursh, the company's founding CFO; Jim Ryan, our new CFO; Nelson Lee, Director of Finance; and Nancy Chan-Palmateer, Director of Communications. David Outhwaite, our COO, is sick and could not join us.

During these often volatile times, CryptoLogic has remained committed to its core strategy and fundamentally focused. In a year full of opportunities and challenges, CryptoLogic performed strongly in 2001. We saw the company continue to rank amongst the best in quality earnings, high margins and positive cashflow. In addition, an aggressive share repurchase strategy is helping raise our EPS now and for the future.

We also made solid inroads in our growth plan adding a significant licensee, customer-driven product releases and acquisition, expansion into new well regulated markets in Europe and development of new gaming verticals.

While industry pressures persist and will continue to impact the company for the next couple of quarters, the outlook for 2002 remains solidly profitable with exciting upside potential on the horizon.

Before proceeding further, I would like to remind everyone that all figures are in reported in US dollars.

Let's first review the excellent results your company achieved in 2001. Revenue in the fourth quarter of 2001 rose 15% to \$11.2 million, compared to \$9.7 million in the prior 2000 period. During its year-end review, Management decided to write off the \$1.3 million associated with the insurance claim. As you may recall, the insurance claim was a result of the system intrusion that occurred in the third quarter of last year. While the claim is still ongoing and there's a reasonable chance of collecting, we felt a prudent approach was proper at this time. As a result, net income for the fourth quarter of 2001 was \$3.7 million versus \$4.1 million last year. This translates into \$0.28 earnings per share in the fourth quarter of 2001, compared to \$0.29 last year. On a fully diluted basis, earnings per share were \$0.25 in the 2001 quarter versus \$0.27 last year.

Without this one-time expense, CryptoLogic would have reported net income consistent with preliminary results of \$4.2 million. On an earnings per share basis, that would have been \$0.32 or \$0.29 fully diluted.

For the year ended December 31st, 2001, revenue easily exceeded our target of 20% top line growth. For the year, revenue increased 27% to \$43.6 million compared to \$34.4 million in 2000. Net income was also strong and up 17% to \$18.1 million compared to \$15.5 million in 2000. As a result, earnings per share was \$1.33 in fiscal 2001 versus a \$1.18 last year. On a fully diluted basis that translates into a \$1.21 per share in 2001, compared to a \$1.03 in 2000. This means net margins came in at 42% for fiscal 2001.

If we exclude the one-time expense related to the insurance claim, net income would have been up 20% to \$18.6 million or a \$1.37 per share and a \$1.25 on a fully diluted basis. Consequently net margins would have been 43% for the year.

CryptoLogic continues to be cash strong with almost \$60 million dollars in total cash at the end of 2001 and generated almost \$20 million in cash flow from operations. While capital is earmarked for potential acquisitions to accelerate growth, Management also continues to make good use of cash reserves for stock repurchases to enhance value for shareholders.

During 2001, the company repurchased about 1.4 million shares at a cost of \$17.3 million through its normal and substantial issuer bids. Subsequent to year-end, CryptoLogic completed a second Dutch option and brought back another 1 million shares at a cost of \$17.5 million dollars. The company's buy back initiatives continue to add positively to earnings per share.

Internet gaming has become a big business - multi billion dollars in scope. The market is vibrant but continues to change. The industry has become highly competitive, broader and more sophisticated. Recognizing this fundamental shift, CryptoLogic's growth strategy is market-driven, centered on player-oriented development, regulatory compliance and signing name brand, land-based customers as vital for long-term profitable growth.

During 2001, we solidly advanced our growth plans. CryptoLogic signed one of the UK's favourite gaming organizations. Since 1923, Littlewoods Leisure has been providing football pools, sports betting and lotteries to millions of loyal customers each week in the UK and worldwide. Also notable is that Littlewoods' online casino will be one of the world's first strictly regulated sites.

Littlewoods represents a pure European opportunity for CryptoLogic. Most casinos on the Net today are in US dollars and competing in the highly saturated North American market. Initially targeting its strong UK player base, blocking US residents, and offering a pound sterling option - Littlewoods offers an excellent point of difference.

In 2001, CryptoLogic extended its regulatory compliance efforts into multiple jurisdictions. Leveraging the \$2.0 million plus invested towards strict Australian compliance, CryptoLogic undertook certification in the Isle of Man and Alderney - two new regulated online gaming markets recently opened by the British government that adheres to high standards consistent with land-based gaming.

CryptoLogic and Littlewoods are in the final stages of compliance certification with the Isle of Man gaming authorities and preparing to go live soon.

CryptoLogic is focusing its development endeavours on player-oriented functionality that will help its licensees establish loyal one-to-one player relationships. To that end, new features and functionality introduced in the past year included:

- popular progressive games that offer some of the world's largest jackpots on the Net;
- a new British pound sterling casino product supporting our focus in Europe and has been hugely successful with UK players;
- significant investments in CRM software to gain indepth insight and optimize the profit potential of licensees' player base; and
- added loyalty features including payouts in Euro currency and new tournaments and VIP functions in its 5th generation software.

We also acquired WinnerOnLine, one of the best gaming portals for players on the Internet. With close to half a million unique visitors each month that are pre-disposed to online gaming, WinnerOnLine gives licensees a superb channel to increase their user community.

2001 was a very good year and shows that CryptoLogic continues to deliver consistent profitability - in good markets and bad.

Profitable growth will continue in 2002, but given current market pressures, Management has revised its short term outlook. Accordingly, we offer conservative guidance of 10-15% growth in the top line. Due to lower revenue and high costs associated with new product development as well as ongoing regulatory compliance, net margins are expected to range between 35-40% for the year. Given CryptoLogic's extensive share repurchases, 10-20% earnings per share growth year over year is a realistic target.

The first quarter remains solidly profitable, but is expected to be the bottom of the growth curve for 2002. Return to stronger momentum will come in the second half of the year as CryptoLogic benefits from Littlewoods' online casino, release of our new bingo, poker and Java products as well as the early contribution of new licensees. While these growth initiatives promise exciting

potential, Management has forecasted modest growth until we see how quickly these new opportunities ramp up.

This year's first quarter will be impacted by reduced revenue due to the credit card issue, the timelag between higher costs associated with new product development and corresponding revenue growth, as well as a significant decrease in interest income due to declining interest rates and substantial buy back of shares.

With expenditures still high in the first part of 2002, Management will control costs to commensurate with revenue levels and maintain healthy margins. We aim to reduce expenses by between \$2.0 and \$3.0 million on an annualized basis, with cost saving measures implemented by mid year. While there are short-term challenges, CryptoLogic enters 2002 on solid ground. We continue to be highly profitable and our pipeline of new products and potential licensees is the strongest in the company's short history. We're positioned to return to stronger growth rates by year-end, and have exciting opportunities that could enable us to even exceed expectations.

Let's remember that Internet gaming is still in its formative years, therefore volatility is to be expected. However, this industry is here to stay. It is already an estimated \$2.5 billion in size and projected to reach \$5.0 billion by 2003.

While, in the short term there will be ongoing ambiguity as governments around the world come to terms with online gaming and establish specific rules of conduct, in the long term, market forces will prevail.

In this evolving environment, CryptoLogic continues to prosper. While the market remains volatile, the trend is solidly upward and we have established global leadership and a track record of double-digit growth, high margins and positive cashflow.

The current issue is that some major US banks – not all - started to self-regulate in light of ongoing legislative uncertainties. These financial institutions have stopped accepting online gaming transactions through their credit cards - the easiest and most widely used payment method on the Internet. This industry-wide development is having a financial impact on CryptoLogic, which began in December and is continuing in the first quarter.

We are responding by providing alternative payment choices for our licensees' players to reduce reliance on credit cards.

While we are making good progress on these new options, we believe that the pressure from US financial institutions will continue to increase. Unfortunately this, as we have seen in the past will only serve to drive the industry underground as players have shown that they will find a way. CryptoLogic,

however, remains committed to a regulated solution and our guidance reflects a tighter US environment and you will see the company accelerate its growth initiatives in both Europe and Asia. Those will be our key focus areas.

It is important to note that the credit card situation is mainly a US issue. For example, William Hill, whose players are primarily in the UK, has not been affected and continues to enjoy robust growth. This supports CryptoLogic's long-term strategy of international diversification.

Last year, the British government made considerable advances to regulate online gaming in Britain and two other UK jurisdictions - Isle of Man and Alderney. Most recently, France's largest casino operator called for the French government to regulate Internet gaming. In the meantime, this major gaming company is adding pressure by announcing plans to set up an online casino offshore.

CryptoLogic has advocated regulation from the beginning and continues to be at the forefront of its compliance efforts. Regulated, responsible gaming is the best solution for everyone and we strongly support this. We will continue to concentrate our efforts in regulated jurisdictions that offer immediate revenue opportunities - that is Europe at this time - and expand our view as new markets develop.

As such, CryptoLogic's international business continues to grow strongly, Littlewoods will further strengthen CryptoLogic's European revenue mix. Our target is to get to a 50/50 split between US and international revenue by the end of 2002.

Even in the unlikely case that CryptoLogic loses the majority of its US business today our base scenario for 2002 would still see the company do about \$0.70 - \$0.80 cents a share fully diluted, post a 30% net margins and generate about \$10.0 million in cash.

International revenues this year is projected to grow over 30%. In the end, CryptoLogic continues to be a fundamentally solid organization and at current share prices, offers excellent value.

We continue to actively buy back our shares. In the past weeks we've repurchased another 90,000 shares out of the remaining 381,000 we are authorized to do in our regular buy back plan, which expires on May 17, 2002.

As we've said, CryptoLogic will continue to increase its global presence in favourable, regulated markets. We're also excited about our expansion into bingo and poker this year which are large, nascent markets with exceptional potential. The trend is towards broader gaming options, and by working with

gaming companies with mass appeal, CryptoLogic is well positioned to expand into the larger mainstream consumer market - the future of e-gaming.

While there will be a period of recovery in 2002, CryptoLogic expects material growth in the latter half of this year as investments in growth initiatives ramp up. Bottom line, Internet gaming is one of the fastest growth markets in the new economy. Also fact is that CryptoLogic will continue to be a leader in this space taking the regulatory route and delivering old economy fundamentals - earnings and cashflow. In CryptoLogic, investors have the best of both worlds.

We are now pleased to open the floor to your questions.

Operator: Thank you Mr. Noelting. We will now poll for questions today using our quick queue polling feature. If you have a question please press one on your touch tone telephone. If you are using a speaker phone please lift the handset and then press one and should you wish to cancel your question, please press the number sign. Please press one at this time if you do have a question. Our first question is from Brian Kinstlinger, Sidoti and Company. Please go ahead.

Brian Kinstlinger: Hi Jean. A couple of questions here. First of all, obviously you've mentioned how bad credit rejections have been. Is there any sign of it easing up a little bit or will it continue to get worse?

Jean Noelting: We don't have a read that it is easing up but we're providing some alternative solutions. So there is a recovery in place. The projection that we have made for the balance of the year reflects no recovery and increasing pressure from US credit card companies.

Brian Kinstlinger: Okay, and you obviously said what you guys think the first quarter is going to be, what do you guys think is the bottom. How bad do you think that's going to be on the top or bottom line?

Jean Noelting: The guidance that we have for the first quarter is that revenues will come in between \$8.5 and \$9.5 million and profits will come in between \$2.0 and \$2.5.

Brian Kinstlinger: Thank you.

Jean Noelting: For the year we're projecting revenues between \$45 - \$50 million and net profit between \$17 and \$20 million. We have made very substantial investments primarily in the second half of last year and this year to launch three major initiatives, bingo, poker and Java games. Our Java games are being launched by the end of the month and so is bingo and we've added a complete Java development team to our staff. And while we won't have multi-player poker and black jack options, we will introduce it within the next three

months. So we will have a truly superb set of games in Java which we plan to introduce very quickly in other languages, particularly with our partners that are in sports book which is a big advantage because all the sports book software is Java based and no download.

At the same time we see tremendous opportunities in bingo. We believe our bingo product is the best; and significant opportunities in poker and the poker product in particular because it offers both a Java as well as a download option and both feed into a single room with different skins for the licensee. So you're going to see some truly outstanding products coming down the pipe.

The reality is we were on such a growth mode that we felt we could make those investments. We have been hit in the short term and we're going to reduce expenses. We're still very profitable and we have had some exciting discussions with licensees, but in the short term, some difficult times.

Brian Kinstlinger: Right. Thanks, and real quickly, I know you've talked about purchasing a sports book Internet company in the past. Is that included in your estimate and what can we expect to see going forward with that?

Jean Noelting: There is no acquisition that is reflected in those numbers and again as I said, there is increasing pressure from the US also reflected in those numbers. Our discussion on sports book is much more on a partnership basis which would give us what we need which is an option to offer for our licensees, a sports book option rather than a purchase outright and that is more from a strategy standpoint to make sure that we remain true to the software mission that we have.

Brian Kinstlinger: Okay and two more questions here and then I'll pass it on. First of all, when are we expecting to see Littlewoods up and running. I know we've been waiting for a little bit. Is there any sign that we'll see it pretty soon?

Jean Noelting: We were to be up and running by October. The Isle of Man has asked Littlewoods for some additional testing on the software, has made additional request. Our target launch is still by the end of Q1.

Brian Kinstlinger: Okay and then finally, you talked about possibly controlling the expenses to make sure that earnings still have some growth. I mean where do you see that run rate for software and development costs?

Jean Noelting: I'm going to pass that to Harvey. The number of \$2.0 to \$3.0 million is the number that we believe is realistic but still allows us to launch those products and those cuts would be made by the end of the second quarter so we would have those verticals solidly in place.

Harvey Solursh: The management is looking at cutting down some of the expenses that we've ramped up in order to develop some of these verticals. Once they are developed, we feel that they'll be definite cost savings for the company.

Brian Kinstlinger: Okay so in the first half we're looking for software development to be about the same as the fourth quarter and then after a little bit of a decrease?

Harvey Solursh: I think for the first two quarters, we should see the range of about \$5.0 million dollars and then it should come down in the last two quarters of 2002.

Brian Kinstlinger: Okay thank you guys.

Operator: Thank you. Our next question is from Murray Baker, Money Smarts. Please go ahead.

Murray Baker: Hello Jean. A couple of questions. One was with respect to the share repurchase. With the Dutch auction you repurchased them at, I believe it was \$28.00 a share. Now the price is trading down about 33% since then. In addition to the normal course issuer bid, will there be any additional plans to enhance shareholder value through say another auction or other method?

Jean Noelting: It's certainly part of our strategy to repurchase shares, and as we see the pricing as being attractive, we will take advantage of opportunities. Right now there are discussions on potential acquisitions so we are going to use our normal course issuer bid. As the situation develops we certainly hope to make use of further buy backs.

Murray Baker: Also, with respect to the lawsuit that was launched by Claude Levy, I wonder if you could comment on CryptoLogic's response and are there any plans for launching a counter suit or could you elaborate on that?

Jean Noelting: I'm not going to comment excessively except to say that all the advice we have suggests that the suit has no merit and it's in the hands of our legal counsel and proceeding well. So we feel very good about that and believe that we will be out of it reasonably quickly.

Murray Baker: And also with respect to some of the allegations in terms of ownership, Claude Levy's involvement in InterCasino that was brought out in a couple of journalist shows of recent history, what is the company doing to distance itself from that or to clarify exact ownership in that respect?

Jean Noelting: We don't have anything to announce at this time but as you can imagine, it's certainly an important area of consideration. We expect to have the situation much clearer during the year of 2002. These are discussions with licensees and therefore it takes two to tango, but we expect to have some further updates during the year.

Murray Baker: Okay, thank you.

Jean Noelting: Thanks.

Operator: Thank you. Our next question is from Brandon Osten, Sprott Securities. Please go ahead.

Brandon Osten: Hi guys.

Jean Noelting: Hi Brandon.

Brandon Osten: Yeah, I've got a bunch of questions here. Now first of all, the \$1.3 million dollar charge, that's on the software development and support line, is that correct?

Jean Noelting: Yes.

Brandon Osten: Now in terms of the expenses for Q1, did I hear you correctly when you said that software development and support expenses were going to be about \$5.0 million in Q1?

Harvey Solursh: They'll be over \$5.0 million Brandon.

Brandon Osten: Over \$5.0 million.

Harvey Solursh: Yes, they'll be closer to \$6.0 million, \$5.7 to \$5.8.

Brandon Osten: Okay.

Jean Noelting: They're in line with Q4 of last year.

Brandon Osten: In terms of North America/rest of world split, with revenues coming in around \$9.0 million, I'm assuming that your non-North American revenues are relatively flat. Just ball park suggests to me that rest of the world will be more than, well more than 50% of revenues in Q1. Am I mistaken in that assumption?

Jean Noelting: We have done an analysis Brandon because in the past we have always reported the split of players which was slightly below 60%. We have revised our analysis by doing the split by revenue and if you look at the

entire year of 2001, the revenue coming out of the US would have been ahead of 60%, closer to 65%. The objective is to be still at the 50% or slightly below by the end of calendar but our reliance on the US remains high which is why when we provided the scenario, what happened if the US evaporates, there is a very significant drop in earnings.

Brandon Osten: So what would it have been, what would the split have been in Q4 then?

Jean Noelting: The numbers that we have would indicate it was just shy of 65%.

Brandon Osten: Okay.

Operator: Mr. Osten, did you have any further questions?

Brandon Osten: Yes, I've still got a few more.

Operator: Okay.

Brandon Osten: Are you guys in a position where you could tell us what percent of InterCasino comes out of US? Is it basically all of it?

Jean Noelting: No. We're not in a position to specify by customer, by licensee.

Brandon Osten: Okay and what effect does PayPal have, like what percent of revenues out of the US is coming from credit cards at this point?

Jean Noelting: I don't want to comment on PayPal at this time because there has been some recovery from the alternative payment option and so we're happy with the progress. The message that we want to send is that our focus is clearly outside of the US. I mean you can count on the company to do all it can in a regulated way to get back its US customers and I think that's only good management. PayPal has been positive. We're not going to have a split on how those alternative payment methods are doing. Needless to say that credit card remains the bulk of the business and there's been a significant drop. We expect the pressure will continue. So we want to have more options. We think we'll have three or four new ones by the end of the first quarter but the thrust is certainly outside of North America.

Brandon Osten: Okay. You guys talked about base case EPS of \$0.70 to \$0.80. What are you guys counting on there. Is that basically revenues outside of US with an expense drop to account for differences in how you spend your money in geographies? I'm not exactly sure what that number is.

Jean Noelting: That is exactly correct.

Brandon Osten: All right great. Thanks a lot guys.

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

Scott Preston: Hi, good morning guys.

Jean Noelting: Hi Scott.

Scott Preston: A couple of questions here. First off, just a quick question on the balance sheet. The large drop in reserves with the credit card processor, is that in relation to some of the credit card rejections we've seen at those credit card processors or can you kind of add some clarity to that?

Harvey Solursh: Actually I'll answer that Scott. There is one credit card processor that we used to have a reserve with that is just paying us off on the six month reserve. Right now all of our credit card processors have letters of credit. So this is the remaining one credit card processor that is giving back our money over the year.

Scott Preston: Okay, excellent. As far as new licensees this year, are you guys still targeting four and how many of those are you counting into your revenue and earnings estimates for the year?

Jean Noelting: One thing I can tell you is that last year we really put in place the new team and focused our relationships with existing licensees and tools to help them on the marketing side. This year I can guarantee you there is a very strong focus to bring in a few great licensees. So we expect Littlewoods to contribute and two new ones to contribute. We still expect to sign four and things are going well to have at least two signed early in the year.

Scott Preston: Okay, excellent. Can you talk about Littlewoods. That seems to continue to be pushed off here. You had mentioned kind of mid to late February before and now you're targeting first quarter. Does that mean this is likely to be pushed into March here or are you still kind of targeting the February time frame?

Jean Noelting: Right now the situation is that the regulators in the Isle of Man have asked Littlewoods for some further testing on the software. We are very happy to do it and are proceeding as quickly as we can. We expect to have that done for a launch in Q1. There was a first series of tests that were performed for them and they have asked for a second series and that is taking place as we speak.

Scott Preston: Okay. As far as asking for the second series, was there a problem in the testing of the first series? What's the reasoning behind that?

Jean Noelting: There was no problem in the testing that we know of but there was a change in the management of the regulators in the Isle of Man. The second group which came on board in Q4 of last year has appointed certain companies as the ones that are authorized to do that testing and these are the new people we are doing the work with.

Scott Preston: Okay. How many current developers do you have right now, software developers?

Jean Noelting: Between 60 and 70. I don't have the exact count. We can look and get back to you.

Scott Preston: And does that include the team of Java developers you brought on?

Jean Noelting: That includes the team of Java developers we brought on.

Scott Preston: Okay and when you're going to cut back the software and development expense on the second half of the year, will you make your cuts in people or more on the infrastructure resource side?

Jean Noelting: If you look at the total cost, there would be a combination of people and cost. We believe that some of the marketing programs that we're co-oping with our licensees will represent about a third, we will be much more strict about that. There will be about a third that would be in operating costs. We have had a tremendous proliferation of sites going from primarily the Caribbean in one location to Australia, the Isle of Man, we're doing Alderney and we've done Curacao and there will be a consolidation internally on all the operations required to support that. The staff would probably be about a third.

Scott Preston: Okay, last question real quick. What's the current licensee base. I know there has been talk around consolidating some of your current licensees. So can you talk about your current base and what that current base will represent at the end of the year, not including what you plan to add, the three or four you plan to add?

Jean Noelting: We have currently seventeen. I think it's fair to say that our thrust to consolidate smaller players will continue and that by the end of the year we'll have consolidated another four. So we expect to finish the year with the new licensees that we will add between 16 and 17.

Scott Preston: Okay, thanks a lot guys.

Jean Noelting: And you know, it's interesting. For us it's about the same amount of work to support a smaller licensee than to support a medium sized licensee. As we get to the larger licensee there's a lot more projects because of the various languages and different payments and currencies. But as such, our thrust is clearly to move the smaller licensees to medium sized or to shift them to affiliate. In that model, they actually can make more money. So it's a good thrust and that's how we're going to have that reduction.

Operator: Thank you. Our next question is from Steve Jones, Private Investor. Please go ahead.

Steve Jones: Yes, I'd like to know, how much cash per share after this 1 million buy back, and are the land based casinos also rejecting the credit card cash advances?

Harvey Solursh: The cash position is approximately \$42.0 million after the buy back.

Steve Jones: And how does that translate as per cash per share?

Nancy Chan-Palmateer: About \$3.00 fully diluted.

Steve Jones: US?

Nancy Chan-Palmateer: US\$3.00 fully diluted.

Steve Jones: Thank you.

Operator: Thank you. Our next question is from Steve Abboud, Masadi Financial Service. Please go ahead.

Steve Abboud: Hi. In regard to your licensees, are all of them royalty based?

Jean Noelting: All of them are royalty based.

Steve Abboud: Could you give me the aggregate handle-to-take numbers of all of them combined for 2000 and 2001 as a comparison? The aggregate number of all licensee handle-to-take combined.

Jean Noelting: We are not providing that information.

Steve Abboud: You won't provide that information?

Jean Noelting: No. Can I ask for a point of clarification? It's the first time that someone has asked that information. Can I ask very specifically what is your interest in this question?

Steve Abboud: Well I'm involved in another online gaming operation. It's a sports book, but I just wanted to see what the comparison of the numbers were. We actually had a very solid fourth quarter but we're having problems obviously in the credit card area too. But I know that you had put out numbers some time back, it might have been a couple of years ago actually that you were giving handle-to-take numbers as well as the aggregate. I think since inception of your credit card runs. So I was doing some comparative analysis.

Jean Noelting: Okay.

Steve Abboud: But you're unable to answer that question at this point?

Jean Noelting: We're not able to answer the question and the handle is to some extent influenced by some of the licensees because some of the games for the casinos are their selections, the payouts are different. We offer a fair bit of customization and they must meet the New Jersey gaming commission rules but within those rules, as you can imagine from the land-based operation, there is some fluctuation and as such it is there, it is up to them to make some new specifications.

Steve Abboud: Well I was just interested in the number in general and there's going to be some variation obviously between licensees.

Jean Noelting: Okay.

Steve Abboud: But you just can't answer that question.

Jean Noelting: No.

Steve Abboud: Okay, unwilling basically. The other thing I would like to ask you is in regard to the alternative credit cards, in addition to PayPal, what other methods do you have currently in place?

Jean Noelting: We have instituted and it's very easy to go to some of our licensees to check and I would invite you to do it. We have an instant check approval methodology. We have a very sophisticated ACH and so those are very easily available. If you look on our press release, a number of those methods are outlined. But your objective and ours may be quite different. You certainly seem to be more focused on the North American market. Our focus is clearly to become more global. Our focus is clearly to introduce the Euros and

we will have that shortly, and to introduce a number of other currencies in Europe and that's where we are going to be.

Operator: Thank you. Our next question is from Rob Horowitz, RH Capital Associates. Please go ahead.

Rob Horowitz: Yes, hi Jean.

Jean Noelting: Hi Rob.

Rob Horowitz: Can you tell us what your estimates work out to in terms of after tax free cashflow generated by the company in this coming year?

Jean Noelting: The cashflow generated by the company would be our net earnings.

Harvey Solursh: Approximately \$17 to \$20 million.

Rob Horowitz: And that's totally free cashflow.

Jean Noelting: Yes, that is before acquisitions. That is correct.

Rob Horowitz: Okay great. Thank you Jean.

Jean Noelting: All right.

Operator: Thank you. Our next question is from Kevin Lo, Lightyear Capital. Please go ahead.

Kevin Lo: Good morning gentlemen.

Jean Noelting: Hi Kevin.

Kevin Lo: I just have a couple of quick questions. Can you talk a little bit more about the Australian environment and what your prospects are in that region?

Jean Noelting: In Australia we have achieved the status of "close associate" and as such, we are ready to team up with operators. Jupiter's at this time is still considering their options. As you know, the legislation has not yet passed. It was supposed to pass in August and then September and it has not yet passed. But the provision of the law at this time would make it a criminal offense for the directors and officers if any players from Australia were to get on the site. So we are in discussion with them and there's a couple of promising options that we are discussing. We're not going to go into details but we believe that there will be a development. At this time I don't want to speculate. This is a

situation where we've invested a lot of money and time with them, and until we have something concrete I think it's best to leave it aside but we're working on it.

Kevin Lo: Okay great. Second question is, you put out some guidance numbers of \$8.5 to \$9.5 million for first quarter 2002 and for fiscal 2002 there is really revenue between \$45 and \$50 million. And obviously there's going to be some, you know, with those kind of calculations you're going to be expecting some record quarters in between Q2 and Q4. What is your visibility and your comfort level in projecting that?

Jean Noelting: The projections are clearly anchored around some projections that we have made on the new games, some of the new languages and some of the new licensees. The new licensees we've of course had to ramp up what we've seen from previous customers. The one that's not as clear is the one from the new games. Those projections that you see, we feel pretty good about it. We would like to come with clear guidance, maybe in three to four months as the situation further develops but we are cautiously optimistic with the discussions that we are having that there will be some very solid customers to be added as well as those new games that will generate some interesting revenues for our licensees and ourselves. So we feel pretty good.

Kevin Lo: Okay and my last question is in terms of Littlewoods. What kind of revenue expectation do you have for that partnership? Is it going to be significant or is it going to be more of a strategic partnership?

Jean Noelting: Littlewoods is clearly expected to be one of our top five licensees after twelve months of launch. Littlewoods, in terms of customers, fits the profile we're looking for. There are three major criteria: (1) is people who have a solid, strong brand name, because on the Internet reassurance is very critical; (2) people who have a large user base because they are easier to convert and as you know, they have 1.6 million customers a week and a 100,000 sales people selling door-to-door every week, their sports pool; and, (3) people who have marketing savvy and clearly they do. In terms of a match, it's as good a match as you can find so we're pretty excited about it and these are the kind of people who are also excited about the prospects to launch other games. So we, and they, have high expectations.

Kevin Lo: Okay. Oh sorry, I do have one last question. In terms of the first quarter, you were talking about it being the weakest period of 2002 and the reason that was cited, I guess, is the credit card situation.

Jean Noelting: Kevin, the reality is that it's a combination of the credit card situation and the investments we've made for the games launched.

Kevin Lo: Well I'm only actually looking at the top line.

Jean Noelting: Yes, you're right.

Kevin Lo: So the top line, that's going to be the case. Now one of the things that you also talked about was a weekly improvement as people are using more alternative methods of payment. Have those levels reached pre - all these credit card issues?

Jean Noelting: No, and frankly while it would be wonderful to have them reach those levels, I don't think it would be prudent to put it in a projection. And so what you have in the projection is the growth coming from other geographies but with the US remaining a difficult environment. We may be pleasantly surprised and there's no question that a number of those players are going to sites which provide options that we cannot, as fully regulated operators, provide. I mean it's unfortunate that this kind of activity creates much more of an underground economy. Be that as it may, there's tremendous growth prospects for a company like ours and that's why we will work on some alternatives but, more importantly, development outside of North America.

Kevin Lo: That's great. Well thanks guys.

Jean Noelting: Thank you.

Operator: Thank you. Our next question is from Matt Stone, Private Investor. Please go ahead.

Matt Stone: Good morning gentlemen.

Jean Noelting: Good morning.

Matt Stone: Last year you announced the signing of LasVegasFromHome.com as your first poker licensee. What is the status of that relationship and how many more poker licensees can you sign without interfering with our own poker market?

Jean Noelting: When you say we are interfering your own poker market, what do you have in mind?

Matt Stone: Well I was just wondering with other poker licensees that you guys have in tact there.

Jean Noelting: The strategy that we have for poker is going to be to offer the software to some of our existing licensees and LasVegasFromHome such that we have a product that's sturdy with critical mass. The situation we had with LasVegasFromHome is, as you know, and I'm sure if you don't you can quickly check, they have developed some alternative software and as such it's created a situation where it's more difficult for us to offer a product to someone

who is already using a software from another source. At this time unless they clarify to us that there is an interest to work with us, we need to make the assumption that they have taken a different route.

Matt Stone: Okay, thank you very much.

Jean Noelting: Thank you.

Operator: Thank you. Our next question is from Eva Kraus, Private Investor. Please go ahead.

Eva Kraus: Yes, good morning Jean. I was wondering, I think this question has been asked before and not answered. What is your knowledge of credit card companies refusing to accept or process the transactions for land based casinos and if they are accepting the charges why are they discriminating against internet gaming.

Jean Noelting: Harvey, can you use a credit card in a casino?

Harvey Solursh: No.

Jean Noelting: So I don't think you can use a credit card in the US to buy chips at a casino.

Harvey Solursh: You can go to an ATM machine and take out money but you cannot play for credit. That's my understanding.

Eva Kraus: I see. So it seems they cannot take the money out of ATM or cannot forward the funds or is there any difference in that situation?

Nancy Chan-Palmateer: The main situation as far as Internet gaming and the credit card issue is more specific to the fact that there is proposed legislation that makes an uncertain environment for credit card providers relating to online gaming transactions specifically. So more particular to that issue is not an issue relating to what's happening in land-based. So what you're seeing are some of the US banks taking a more conservative approach because of the uncertainty on the legislative side of things for online gaming transactions.

Eba Kraus: But they are also not allowing the transactions in casinos?

Nancy Chan-Palmateer: It's two separate situations. It's not necessarily related. In this case the credit card issue is where a number of US banks are banning credit card transactions, it's specifically targeting online gaming transactions. It's not necessarily related to what's happening in the land-based world.

Eba Kraus: So it's kind of discriminatory?

Nancy Chan-Palmateer: Well it is and they've just taken a different approach as far as their policy.

Eba Kraus: I see, thank you.

Operator: Thank you. Our next question is from Andre Edelbrock, Private Investor. Please go ahead.

Andre Edelbrock: Hi gentlemen. I'm not sure if this question was asked already but at the time the buy back was extended, I mean you guys were fully aware of the credit card challenges in the US and a little less rosy short term outlook. I wondered what was management's reason for extending that buy back versus letting it expire and buying back at the current levels?

Jean Noelting: The reality is that when you have a buy back, you have to make your shareholders aware of the most up-to-date situation in the company. While I understand your point that opportunistically we could have let the buy back squeak by and make another buy back right away, we felt that it was incorrect and that our shareholders should know what was the current status of the situation because it happened during the period of the buy back. And it would be very similar to, if we had, for example, made a big acquisition during that time which would have had some very favourable earnings implications, it would have been incorrect for us to quickly finish the buy back and then come out and say, by the way shareholders, we have that great acquisition so we're happy we bought at this cheap price. So if it works one way, it has to work the other way.

Andre Edelbrock: Fair enough. Thank you.

Jean Noelting: Thank you.

Operator: Thank you. Our next question is from Andrew Zarnett, Deutsche Bank. Please go ahead.

Andrew Zarnett: Good morning gentlemen.

Jean Noelting: Good morning.

Andrew Zarnett: I was wondering if you might be able to explain to me how the fourth quarter progressed, in terms of business. In other words, what month was the best and what month was the worst and on a comparative basis, how December was say to October and then how January has been compared to December.

Jean Noelting: Andrew, we'd be happy to walk you through that in more detail outside this call. Let me give you an overview and we'll take it off line after.

Andrew Zarnett: Should I call you Jean?

Jean Noelting: I think Jim Ryan, our CFO, is the best person to call but in general, great October, great November and very difficult December.

Andrew Zarnett: And how did the December compare to this January?

Jean Noelting: January will be ahead of December.

Andrew Zarnett: So business has improved.

Jean Noelting: Yes.

Andrew Zarnett: And why's that?

Jean Noelting: Business has improved because we have a number of new payment options but also because we have now the benefit of Version 5.0 which was embryonic at the time and that's fueling some growth.

Andrew Zarnett: On a same store basis of existing clients, is business down and how much is it down?

Jean Noelting: On a per customer basis, and that's a question for Jim, we'll take it off line, but I think the business has been down in general because we have seen a number of users, licensee users, who are using a number of different payment methods and are still able to play with the licensees but not at the same level. Do you understand what I'm saying?

Andrew Zarnett: No, I don't understand what you're saying. Are you saying you're losing customers or are you saying that you've renegotiated your royalty fees?

Jean Noelting: No. We'll take it off line but when the situation in the US hit, there were a number of customers who had a couple of different means for depositing money into the casinos and with the situation, their means were significantly restricted. As such, the revenue per player has slid and we are seeing improvement as new payment methods are increasing.

Andrew Zarnett: Did the decreasing business in December have anything to do with renegotiating royalty payments with any of your customers?

Jean Noelting: Absolutely not.

Andrew Zarnett: And visibility of business in the first quarter compared to January, you said January is better than December. Do you look for February and March to be on par with January or back like December?

Jean Noelting: No, we're looking for some improvement in February and March.

Andrew Zarnett: So December was a very bad month.

Jean Noelting: Well if we had to have a significant reduction in our earnings for something that happened in one month, to me it was quite bad.

Andrew Zarnett: Jean, another question. How much stock do you own in the company?

Jean Noelting: That I own, or stock options?

Andrew Zarnett: Have you bought any stock in the company at these levels?

Jean Noelting: No, I have not bought stock in the company.

Andrew Zarnett: Okay, thank you very much.

Jean Noelting: My pleasure.

Operator: Thank you. Our next question is from Mathieu Roy, Louisburg Investment. Please go ahead.

Mathieu Roy: Salut Jean.

Jean Noelting: Salut. Comment ça va?

Mathieu Roy: Tres bien. I have a few questions but first I'd like to follow up on the land-based situation for the credit cards. I just did a little work on my own to figure out if the credit card companies accepted the land-based charges. I've contacted about a dozen US casinos and their feel was that you can use the ATM or go to the counter and any major credit cards would be accepted. Just trying to get a feel on how you're seeing the situation that the credit cards don't accept the land-based charges as well.

Jean Noelting: That's something that we need to verify. It's not an area that has been particularly of focus for us before we had that problem, but my understanding is that the rejection that we see comes from two areas. One is

the fact that it's a gambling transaction and second, that it's a non-signature transaction and it's the combination of those two factors which creates, triggers, the rejection. For the land-based operation, you wouldn't have the second one so it may be different. It's something we need to follow up. I don't have an answer for you. Our understanding from discussions with credit card processors is that they were precluded from accepting money directly for payment into casinos. They may have found a way to work it out with the casino operators.

Mathieu Roy: Okay, just for your information, I think the way they can do it without many problems is as a cash advance. Anyway, the next question may be more related to the numbers. Just a quick question. On tax rate, what do you expect for 2002 and onward?

Harvey Solursh: We expect the tax rate to be under 10% on a go forward basis.

Mathieu Roy: Okay and to your expenses, I just got a little mixed up when you were talking about \$5.7 million or so. Does that comprise software and G&A or just software?

Harvey Solursh: Just software.

Mathieu Roy: Okay and what would be your expectation for G&A?

Harvey Solursh: The G&A should be in the area of a \$1.0 million.

Mathieu Roy: Okay and that's for all year, every quarter?

Harvey Solursh: Yes.

Mathieu Roy: Okay. And just related to Littlewoods, you mentioned the timing: it would be launched the end of the Q1. The situation with the regulators, is it related to the fact that you wouldn't be asked any more information or did you expect more discussions with the regulators?

Jean Noelting: The discussions that are taking place are between Littlewoods and the regulators not between ourselves and the regulators. They're being asked for some further testing which we're happy to do and we have done in many other jurisdictions. The issue is how quickly can that be performed and that's what we're trying to expedite as we speak.

Mathieu Roy: Okay, identify your target launch.

Jean Noelting: At the end of the first quarter based on the response we have seen from the request of Littlewoods.

Mathieu Roy: Okay and just two more questions. The issue of the insurance claim. You wrote it off at this point. I was a little surprised by that. What were the reasons that brought you to do this?

Harvey Solursh: The reason that brought us to do it is that on one of the claims we had made we had a denial from the insurance company and once we had a denial it means that we, of course, got legal counsel. Legal counsel is optimistic on our chances but in order to be prudent and conservative, we felt it was the right thing to do in writing off the claim right now. If we get it back, of course, that will be income in the company's hands.

Mathieu Roy: Okay. And just to be clear, you said you had a denial from one of the claims you made. How is the claim done. Is there multiple claims or I thought it would just be one big claim.

Harvey Solursh: This insurance claim is still under investigation and we have advised a number of our insurers, actually three of them, that we might be making a claim against the policy because, there's various ways of looking at it and seeing that it's still under investigation we don't have the exact formula.

Mathieu Roy: Okay and one last question. Will you buy the remaining 290,000 shares under the buy back which expires, I think at the end of May.

Jean Noelting: On the buy back we are going to take advantage of the opportunity. So it's certainly an integral part of our strategy. We're pondering some acquisition and investments as we speak so both are being considered. But you can be sure we are strongly focused on growing those EPS numbers.

Mathieu Roy: Thank you. I'll turn it over.

Jean Noelting: Thank you.

Operator: Thank you. Our next question is from Francois Lebel, Cote 100. Please go ahead.

Francois Lebel: Good morning guys. First question, can you explain why the negative tax rate in Q4 instead of 16.5% the year before? That's the first question.

Jean Noelting: Well the major difference as you can see, our tax rate is strongly influenced by the amount of investment income that we derive. This has dropped dramatically both because of the use of buy backs, which has reduced our reserve as well as a reduction in interest rates. So there's been a significant reduction because of that.

Francois Label: That can explain the reduction of the income but in the taxes I mean. You have negative taxes in that quarter. That's what I'm looking for.

Harvey Solursh: That comes out of the insurance claim write off.

Francois Label: Okay, that's what I suspected. Second question. Your press release mentions that the expenses should be reduced in the first half of 2002 yet your explanations on the development cost seems to show that you'll have \$5.7 to \$5.8 million which is even higher than last quarter if you exclude the \$1.3 three million and your G&A will be about the million which is just slightly below. So I was wondering . . .

Jean Noelting: It's a very good question. We had to sit down as a management team and decide how we were going to handle this situation with this impact on the revenue. And the basic response that we have provided is the following one. Short term we need some alternative payment options. It's a tactical response. For the medium to long term we need to have a better expense base and to have our expansion. The expansion outside of North America is on licensees, on new games and on new languages and new currencies. For us to reduce expenses right away we would have to cut the expansion in new games, new languages and new currencies which we felt was strategically incorrect. So we decided to keep those thrusts in tact and after that, reduce so that we can have this expansion outside of North America accelerated. And that's why we have those costs that are relatively high.

Francois Label: In other words you're going to have the implementation done in the first half but the true impact on expenses will only come later on in second half mostly and next year.

Jean Noelting: Absolutely. The issue is going to ramp up. You know, unfortunately it's like building a plant. You have all your costs in building the plant up front and then you start producing those widgets and then you can start writing off the plant. Now the reality is, in our business we actually expense the plant as it is being built and that's what we are incurring as we speak. But we're looking at the second half as the time when we have those products generating revenues.

Francois Label: Okay good. Third question. On what grounds was the insurance denial based? Anything specific, due to insiders info?

Harvey Solursh: I don't think that we want to discuss it, seeing that it's still under investigation and seeing that we're still in the progress of dealing with this insurance claim.

Francois Lebel: Okay thanks. Last question, the average repurchase price of the 90,000 shares in mid to late January must have been much lower than the 17.5 million average or \$17.50 a share.

Jean Noelting: Yes.

Nancy Chan-Palmateer: It was actually US \$13.00 on average.

Francois Lebel: And then I suspect that at this price, we might expect less short positions also by next month?

Jean Noelting: Well your guess is as good as mine.

Francois Lebel: Okay, thanks guys.

Jean Noelting: Thank you.

Operator: Thank you. We have a follow up question from Brandon Osten, Spratt Securities. Please go ahead.

Brandon Osten: Hi guys.

Jean Noelting: Hi Brandon.

Brandon Osten: Yeah, a quick follow up here. Just running some back of the envelope numbers here but would you guys expect that non North American revenues are going to be close to \$25 million this year?

Jean Noelting: They're going to be close to \$25 million this year.

Brandon Osten: Okay then, I guess my numbers are okay then. Thanks a lot.

Jean Noelting: Okay.

Operator: Thank you. We have a follow up question from Murray Baker, Money Smarts. Please go ahead.

Murray Baker: Yes, one of the questions related, I wonder if you could tell me how much, what percentage of shares are owned by insiders? There was a question Jean of yourself but what about management in general?

Jean Noelting: The insiders would be at about 30%.

Murray Baker: 30%?

Jean Noelting: Correct.

Murray Baker: Now has there been any insider buying from management recently in terms of considering the buy back at the higher price and the fall about thirty percent from that? Has there been any insider buying by yourself or others at these prices?

Jean Noelting: I can verify. I don't have an answer for you at this time.

Murray Baker: Okay. The other question is related to the ongoing problems with credit card rejections which are taking place primarily in the US but could of course expand in other jurisdictions. Are there any plans by the company to develop or co-develop with another company, their own payment options?

Jean Noelting: Absolutely.

Murray Baker: So it could be something in addition that CryptoLogic is directly involved in?

Jean Noelting: Absolutely, but it's not a short-term issue.

Murray Baker: Okay, thank you.

Jean Noelting: Okay.

Operator: Thank you. We have a follow up question from Andre Edelbrock, Private Investor. Please go ahead.

Andre Edelbrock: Hi. The previous gentlemen asked the question that I wanted to but while I'm on, I just wondered, when is the transition between the CFOs actually finalized, and what's on Jim's priority list over the next 90 days?

Jean Noelting: Well Jim is our new CFO. I have to take advantage of this opportunity to thank Harvey. He's done a super job to create a company that in less than five years generated a \$100 million, which is truly remarkable. That being said, Harvey has some exciting things on the books. Jim is our new CFO and I think Harvey is finalizing the transition during the month of February.

Andre Edelbrock: Excellent, thank you. Thank you Harvey.

Harvey Solursh: Thank you.

Operator: Thank you. Our next question is a follow up question from Mathieu Roy, Louisburg Investment. Please go ahead.

Mathieu Roy: Jean, just one more question. Between all your methods of transactions or your new payment alternatives that you've introduced, which one has been working the best?

Jean Noelting: We're not going to provide answers on that. It's early days and as such there's a number of things that are still being implemented. It would be too early to talk about it. Let us get a quarter under our belt and then we'll be better equipped.

Mathieu Roy: Fair enough. Thank you.

Operator: Thank you. We have a follow-up question from Scott Preston, Research Capital. Please go ahead.

Scott Preston: Hi guys. Just a couple of follow-ups here. If you can touch on the acquisition strategy in maybe a little bit more depth and then also with regards to that, do any of the four licensees come from possible acquisitions you might make over the next year?

Jean Noelting: The acquisition strategy we have always said is the expansion into the verticals of lottery and sports book. Sports book will have a different slant because our focus now is much more on a partnership. Lottery remains something that is highly of interest to us. We've been very pleased with the little acquisition that we've done of WinnerOnLine and as such, these portals, which have great access to potential players are an avenue that we're looking at. As for whether or not acquisitions will provide licensees, acquisition would not; investment may and we will see later on as these things unfold.

Scott Preston: And then also if you can just, I hate to dwell on the point but on the credit card rejections, what is the rate like in Europe. I mean is it zero? I assume it's quite a bit less than what it is in the States but can you just touch on the overall?

Jean Noelting: In Europe there is the alternative which is the debit card. So in Europe, actually less than 50% of transactions are credit cards and we also have no charge-back on a debit card transaction as you can imagine because it's a direct transfer. In Europe you have the double whammy of having noticeably better acceptance rates, let's say about a third better, but you also have the fact that your reliance is about 50% less in terms of total number of people who use that as a method. So that double impact is very significant.

Scott Preston: So the credit card rejection in Europe is about a third better than in the States.

Jean Noelting: Yes.

Scott Preston: Okay and last question real quick, if you can just talk about the Asian strategy and how that's developing?

Jean Noelting: The Asian strategy is developing. We are in discussion with people who are applying for licenses in Macau. We're also in discussion with people who are Asian partners who have existing licenses and we've also had discussions with our existing licensees who want to launch a oriental based casino option. Those are the three elements of our strategies.

Scott Preston: All right. Thanks a lot guys.

Jean Noelting: Okay.

Operator: Thank you. At this time if you do have a question please press one. Our final question is from Steve Abboud, a follow up question, from Masadi Financial Service. Please go ahead.

Steve Abboud: Jean, back to the credit cards just for a second, have you guys considered as an alternative either acquiring or partnering up with an offshore bank in regard to the US credit card problems with the banks here?

Jean Noelting: No. Steve, we are a fully regulated player and as such there are things that some people will do that we will not do. For us to do that will only invite the US to retaliate which, in the end, is not a benefit to anybody. And you know, we believe that the US, in the next two years, will open for Internet gaming. We want to be able to play in that arena, and as such we've got to make sure that we're prepared for that option.

Steve Abboud: Don't you believe that it's not Visa, Mastercard, it's the banks in particular in the United States that are basically boycotting this payment method. It's not Visa, Mastercard, it's not obviously international. It's just focused in the United States because the laws are not yet fully defined here.

Jean Noelting: Steve, I don't want to go into details. I answered your question. Our understanding is that financial institutions will not give you credit offshore and there's significant issues with banks being in completely different continents doing transactions and, as such, at this time it's not an option that we contemplate.

Steve Abboud: All right, thank you.

Jean Noelting: Thank you.

Operator: Thank you. We do have one final follow up question from Andre Edelbrock, Private Investor. Please go ahead.

Andre Edelbrock: Hi gentlemen. Just wondered what the current position in dot com Entertainment was? I know a while back it was around ten percent ownership.

Jean Noelting: It is still the same.

Andre Edelbrock: Okay, thank you.

Jean Noelting: Thank you.

Operator: Thank you. At this time there are no further questions registered. I would now like to turn the meeting back over to Mr. Noelting. Please go ahead.

Jean Noelting: I want to thank all of you who participated in the call and in just a brief summary, we have seen a reduction in the revenue as you know. We've talked about it at length. What you should focus on is the fact that this company remains very profitable. We have solid cash reserves. We have changed our strategy and it's going to be significantly focused on Europe and Asia. We have some very interesting prospects for growth which we expect to announce as early as during the first quarter or early second quarter and we have the best product in our pipeline. As I discussed earlier, the way we account for things, all developments are expensed as they are incurred and as such, that pipeline has been costly for us to bring to market. Those things are coming as early as February for Java games and for bingo and as early as by the end of the quarter for poker. We are excited about these prospects. We look to the balance of the year with optimism. Thank you.