

CryptoLogic, Inc.
2002 1st Quarter Financial Results Conference Call
April 30, 2002

Operator: Good morning ladies and gentlemen. Welcome to the Cryptologic first quarter 2002 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'm Jean Noelting, President and CEO of Cryptologic. With me today are Jim Ryan our CFO; David Outhwaite, our Chief Operating Officer; John Chalmers, our newly-appointed Vice President of Legal Affairs and Compliance; Nelson Lee, Director of Finance; and Sean Stokes, our interim Director of Communications.

As you are aware, we made a number of important announcements this morning along with the release of our first quarter results. These reflect the substantial progress that has been made in the past three months to strengthen our company, and as such we have considerably improved our competitive position.

I will walk you through these and discuss the implications as we continue to move forward with our strategy of expansion into new gaming verticals and regulated international markets, principally in Europe, with an expanding roster of Tier-one licensees.

In the background of this progress was an environment which, as expected, was difficult for the industry. The effects of the US credit card situation had a major impact, and we expect this issue will continue to affect performance over the next few quarters.

This is mainly a US issue which will remain important over the near to medium term. We responded tactically by implementing additional payment options and by helping players to move to other cash based options that are available through to our own e-cash product. Importantly, in addition we have implemented some cost control measures to adjust for the temporary lower revenues.

We have also taken advantage of this period to strengthen our business in a market which is experiencing some short-term volatility but which will still grow at double-digit levels this year. A market where more and more jurisdictions are opening up to on-line gaming with regulations and controls. A market where the demand remains robust and legitimate. Our response has been comprehensive – with the refocusing of our business in Europe initially, and Asia, the development of new business verticals and continued progress on the regulatory front.

Cryptologic was a pioneer in a spectacular industry, but it was heavily reliant on one market, on a handful of licensees, and on one product. By the end of this year, each of these areas of vulnerability will have been addressed and the company will be back solidly in growth.

The validity of our strategy to focus on the European market as one that embraces on-line gaming was very evident in the first quarter. We anticipate the product and licensee announcements made earlier today will have a significant impact on European revenue in the second half of this year, and fully expect that 50% of licensee revenue will be generated in non-US markets by year end. We are making these important changes while keeping a watchful eye on the bottom line. Despite the transition, we remain solidly profitable.

With the welcoming of our new CFO, Jim Ryan, we have completely recast our projections. As such, we're providing guidance for the second quarter -- revenue between \$9.5 and \$10.5 million with net income between \$2.5 and \$3.0 million and EPS between \$0.19 and \$0.22. For the year, revenue will be between \$44 and \$46 million, net income between \$13.5 and \$15.0 million and EPS between \$1.01 and \$1.12. As with last year, 2002 will be a year of contrast, but in reverse. The first half will be difficult and we'll complete our transition away from the US as a focus for growth. In the second half we will start to see the product of those initiatives. I would now like to turn the call over to Jim Ryan to discuss the financial results for the first quarter.

Jim Ryan: Good morning. It's my pleasure today to present our first quarter financial results. My presentation will consist of a commentary on firstly, the main components of our income statement, secondly on various key financial indicators. Details of the company's revenue performance are as follows.

Q1 revenues of \$8.7 million are on target and within the guidance provided at the beginning of this year. That being said, revenues for the quarter declined by 20.3% from Q1 of the prior year. The decline in revenue is due primarily to challenges being faced by the Internet gaming industry as it adjusts to the US credit card situation.

In the quarter, the company did experience positive momentum towards its objective of reducing its reliance on US players. Revenue generated from US players was 63% versus 73% in the same quarter last year. It's also interesting to note that revenue generated from the United Kingdom increased to 25% in the quarter compared to a level of 12% in the previous year.

We are optimistic with respect to achieving our stated objective of reducing revenue reliance on US players to a level of 50% by the end of the year, given the addition of brand name licensees such as Sports.com, Ritz Interactive, Dukes Entertainment and lastly the Littlewoods Casino.com coming live.

Software development and support costs include all personnel, licensee support, customer service costs and compliance related expenditures. These costs declined by 3.5% to \$4.8 million in the quarter. Projects included in these costs are the development of software to enter into the bingo and poker gaming verticals, the development of a range of our most popular casino games using Java technology, an investment in customer relationship management software to optimize the profit potential of licensees, regulatory compliance efforts in the international jurisdictions of the Isle of Man and Alderney and ongoing development and enhancement of our core technology.

It's important to note that we expense 100% of software development costs as incurred, and as such, in our first quarter, we have all the costs with little of the revenue benefits associated with the above-mentioned projects.

The company and its subsidiaries currently have a 152 employees located in four countries. Our staff breaks down as follows. Software development personnel 49%; customer support 22%; licensee support, sales and marketing 13%; and lastly, administration at 16%.

General and administrative expenses were \$1.2 million for the quarter, a 56%, or \$0.4 million, increase from the previous year. The primary factors contributing to the increase related to increased infrastructure costs associated with growth in the company's workforce on a year-over-year basis, heightened international business development as the company pursues licensee opportunities, regulatory compliance and evaluating a public listing in Europe. Finance costs include bank charges, bank draft and letter of credit fees. All letters of credit are secured by cash deposits included in the restricted cash balance on the company's balance sheet. These costs increased slightly in the first quarter due to increased usage of the company's bank draft facility.

Interest income decreased in the quarter to \$0.2 million from \$0.8 million in the previous year. The decrease in interest income is a result of, first reduced cash reserves. In the quarter, the company used \$19.8 million of cash to repurchase shares and made a \$5.9 million investment in SCG Enterprises, a subsidiary of Sports.com. Second, the company operated in a lower interest rate environment and therefore earned less interest income on our cash reserves.

Income taxes for the quarter were \$0.3 million versus \$0.6 million in 2000. The primary cause for the decline in income tax relates to lower pretax profits generated in Q1 of 2002.

The company's net income for the quarter was \$2.2 million, or fully diluted earnings per share of \$0.16, compared with \$5.2 million, or fully diluted earnings per share of \$0.34, in the previous year's quarter. The primary cause for the

profit decline relates to revenue challenges associated with the US credit card situation and the reduction of interest revenue.

The company has instituted cost control and reduction measures in the quarter which include a staff reduction program. The company reduced its Canadian-based operations by 10%, and instituted a headcount freeze; a capital asset freeze, excepting requirements for new licensees and various operations policy changes; and general expense control measures.

Turning to the company's cash flow, during the quarter the company's cash reserves declined by \$23 million to \$34.4 million. The change in cash is primarily a result of cash inflows generated from operations of \$2.8 million netted against cash used for financing activities of \$19.6 million. Those financing activities included a share repurchase program for \$19.8 million net of options exercised of \$200,000 dollars. And lastly, cash used in investing activities of \$6.2 million, whereby the company made a \$5.9 million investment in SCG Enterprises, a subsidiary of Sports.com, and also invested in capital asset additions of \$300,000.

As of March 31st, 2002, the company had \$19.8 million in cash and cash equivalents and \$14.5 million of cash held on reserve with its bankers to secure letters of credit granted to banks that process credit card transactions on behalf of the company.

The company has no debt, and expects foreseeable cash flow needs to be funded through existing cash resources and operational cash flows.

Our capital structure includes 11,912,000 common shares issued and outstanding, 30,000 series F warrants and 2,432,000 employee stock options, giving you a fully diluted position of 14,374,000 shares.

In conclusion, management is confident that your company is correctly positioned to succeed. We've completed our first quarter with continued profitable performance despite industry challenges, a solidly established recurring revenue model, an ever increasing list of brand name licensees combined with a healthy balance sheet, talented management team, highly skilled and motivated employees. We look forward to the continued success of Cryptologic.

I'll turn it back to you Jean.

Jean Noelting: Thank you Jim.

Since the beginning of the year, we have made great strides in improving our competitive position. Our growth strategy remains:

- One, to direct our efforts towards signing new licensees with a solid brand name, large user base and the marketing savvy necessary to be successful in an increasingly competitive market today and in the future. Quality as opposed to quantity are the operative words;
- Two, to focus on driving organic growth with existing customers with the addition of market driven products that open up new opportunities to enhance player relationships and to broaden the player base via new gaming options, new languages and new payment options; and
- Three, to provide our customers with the best data mining, e-marketing and customer care support to help them win in an increasingly competitive environment. With our business model, it is only when they win that we win.

And the common thread towards growth will be an unfailing commitment to regulatory compliance. This industry will be a substantial one and it will be regulated.

The wave of consolidation that we're seeing is impacting primarily the unregulated segment. Overall, the market is still growing. The goal we set for 2002 was to sign and launch four new brand name licensees. I'm very pleased to be able to announce today that we have signed three of these within the first half of the year. Importantly all three fit our criteria for success.

Sports.com, signed in February, offers tremendous opportunity to further tap into the European market with over four million unique users, expected to grow to seven million plus during the World Cup which begins in June. There's no question that Sports.com has the reach to quickly build a loyal casino player base among its sports information and betting customer franchise.

The Sports.com casino also represents the first licensee site to initially go live with the Java games which we launched in February. Java has tremendous crossover appeal to the sports betting market given its easy to use, no-download format. To further expand Sports.com casino's functionality and player appeal, a downloadable version is now in development.

Our second new licensee, Ritz Interactive, is a new entrant that has the potential to take Internet casino gaming to a whole new level. As many of you know, the Ritz Club is one of the finest gaming brands in the world. Located in the Ritz Hotel in London, the Ritz Club has an unparalleled reputation for security, sophistication and trust, and we're very excited to have been chosen to bring this to the Internet.

Ritz Interactive was one of three organizations recently granted licenses on Alderney. Our software certification there is well underway, and we anticipate moving through that process quickly.

Finally, the addition of Dukes Entertainment also offers tremendous upside. Dukes Gaming.com has all the elements necessary for long-term success by virtue of its long-term advertising agreement with Free Lotto.com which has an audience of twenty-four million pre-qualified users. Dukes has the potential to ramp up and become a major force very quickly.

Finally, with respect to licensees, I'd like to discuss Littlewoods. Littlewoods, as you know, is one of the UK's favourite gaming organizations providing football pools, sports betting and lotteries to millions of loyal customers each week in the UK and worldwide.

Our software testing on the Isle of Man is progressing well and virtually completed. As we announced this morning, Littlewoods is expected to be up and running in May, and with their tremendous reach in the UK we continue to expect a very significant impact quickly. We have moved ahead well in our regulatory efforts in the Isle of Man and have adapted to their new requirements.

On-line gaming continues to grow in size. In Western Europe alone, Internet gambling is expected to be worth \$15 billion by 2005. Not only is the market getting bigger, it's getting broader in terms of gaming options. To tap into this growth, Cryptologic is working to expand its entire spectrum of gaming verticals to become a fully integrated e-gaming service company. The first examples of these efforts are the two new products we've introduced since the year began.

I've already mentioned our Java games which have become very popular with players and licensees alike. Six licensees have now fully implemented Java casinos, and Java suites are being offered to all of our licensees.

We're also very excited about our bingo product. It's in field test now, and is scheduled for availability to all licensees on May 23rd. It's a very robust and attractive product that offers a lot of player appeal, and one that we think will rapidly become extremely popular with both players and licensees.

Finally, we will be launching poker early in the third quarter. While the game development is at an advanced stage, there is so much activity between now and the end of the second quarter it is appropriate to stage the launch at a time when we can give full attention to support.

In addition, as part of our international focus, we're also very excited about the localization efforts we have underway. Language and currency are two big factors in product acceptance. We expect to introduce in 2002, German,

French, Italian and Spanish casino software for play in Euros; and Spanish, Chinese and an updated Japanese version for play in US dollars.

Cryptologic endorses the industry's highest standards of probity for both licensees and employees. In our continuing thrust toward compliance, we're extremely pleased to announce the settlement of the civil action that was initiated in New Jersey last October.

Cryptologic has been, and will remain, a leader in compliance around the globe. We have set ourselves apart from our peers through our commitment to software certification in the tier one jurisdictions of Australia, the Isle of Man and Alderney.

The company's compliance committee, headed by former RCMP Commissioner Norm Inkster, continues to work to ensure that CryptoLogic remains on top of an ever-changing legislative landscape.

Further to this goal, the company has added John Chalmers as Vice-President, Legal Affairs and Compliance. John has an extensive background in gambling law, regulation and enforcement, and will be of tremendous benefit as the company continues to grow its business in new and existing markets.

John comes to us from the regulatory side -- he's a former member of the board of directors of the North American Gaming Regulators Association and a founding member of the Canadian Gaming Regulators Association.

One of the prime regulatory markets in the world is the UK, which has long demonstrated leadership in the regulation of on-line gaming. This tradition continued with the recent announcement of the government plan to implement a well-defined regulatory framework for Internet gaming to create a fully regulated industry and position Great Britain as the world leader in this area.

We applaud this initiative which will serve to benefit both players and suppliers. The investments we've made in tier one regulatory compliance to date should enable us to quickly meet the UK guidelines once they are in place.

While progress is being made on the European front, we expect the pressure from US financial institutions will continue to increase. A tighter US environment has been factored into our projections for this year.

While the US situation will create some short-term pain within the industry, it will bring about some necessary changes. With 1,400 gaming sites fighting for market share on the Internet, rationalization is inevitable. Only the strongest players will thrive by being ahead of the curve with respect to markets and marketing. These companies will be able to take advantage of acquisition opportunities to become leaders in new geographic regions and vertical markets.

Further, weak, unregulated players will be rationalized and that will improve the industry's optics.

With a strong cash flow position, solid financials and a rapidly growing presence in Europe, Cryptologic is well positioned to be one of these leaders. You will not find anyone with a stronger group of UK partners, and this is just the beginning.

In a volatile market, Cryptologic continues to deliver strong results. The fundamentals of earnings and cash flow remain the driving force behind this company, and we feel Cryptologic deserves to be valued on these fundamentals. As such, we are actively pursuing a European listing for Cryptologic shares, and hope to have further news on this front shortly.

The market for Internet gaming remains one of the most robust in the new economy. By staying focused on key business principals, remaining at the forefront of a changing market and taking the regulatory route, Cryptologic is well positioned as the industry enters its next phase of growth. With that, I will open to questions from the floor. Thank you.

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 1 on your touch-tone telephone. If you are using a speakerphone, 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 Mathieu Roy from Louisburg Investment. Please go ahead.

Mathieu Roy: Hello Jean?

Jean Noelting: Yes.

Mathieu Roy: I have a question. You said that with the US financial institution pressure, you expect it to be tighter during the rest of the year and you have built that into your expectations for 2002. I was under the impression that for the first three months of the year that you were able to recuperate at least a portion, or the momentum was positive in recuperating US customers?

Jean Noelting: Yes the momentum was positive as we have developed new payment options, however, we have seen some tightening of the banking network in the US, and the comment that I made is that we expect that pressure to continue. We will respond by continuing to develop options for players coming out of the US, but the reality is the focus of efforts is probably going to be about 80/20, 80% in the new markets of Europe, Asia and new games, and 20% on the payment options to find alternatives in the US.

Mathieu Roy: Okay and maybe another question on Dukes Gaming.com. Would this be a land-based casino or not?

Jean Noelting: Dukes is not a land-based casino. The beauty of that deal is that one, they're a very well capitalized company; two, they have superb marketing talent, particularly as it regards to the internet; and three, they have a long-term marketing agreement with Free Lotto which is the largest lottery on the Internet. And you'll see in our press release, we describe Free Lotto a little bit more. They certainly had extraordinary success, and the belief that they have and we share their views, is that there will be quite an interest from some of their franchise, albeit a small one, but given the size it will be substantial, to go into casino gaming. You will see us on the development of new games, put quite a focus on games of chance like slots type which we believe have strong appeal for people who are interested in lottery products.

Mathieu Roy: Okay. I'll ask just another quick question and I'll let other people ask questions. In Littlewoods you mentioned that you expect to go live in May.

Jean Noelting: Yes.

Mathieu Roy: But you also mentioned that your certification process was not complete. Is there a possibility that it may not be completed during the month of May?

Jean Noelting: The indications are all that we will go through, but until we turn the switch and we start operating the system we cannot be a 100% sure. However, at this time, we are very confident that some time in May and certainly earlier than the end of the month, they will be up and running. And we have spent a lot of time, David and his team, with both the regulators and on the operating side, and we feel very confident.

Mathieu Roy: Thank you.

Operator: Thank you. Our next question is from Abba Horovitz from Yelmen Capital. Please go ahead.

Abba Horovitz: Hi, good morning. A couple of questions for you. What's happening to your competitors in this marketplace? I know you have two types of competitors, the in-house guys and the outside guys. I'm wondering what's happening to them given the recent problem with, I guess, US financial institutions, and are you concerned at all that this could potentially spread to outside United States. I'll just start with that. I have one question after that.

Jean Noelting: Okay, the situation with competitors is one of contrast. Those who were the early players and certainly have a significant

amount of their business focused in North America have been impacted the most.

If you look, for example, at Boss Media, Boss has released their Q4 results. Revenues were down 43% and they went from a profit of \$2.0 million to a loss of about \$2.5 million. This being said, they're still well capitalized but it has affected them significantly. The information we have from a number of other players is that they have been impacted very significantly. So from that standpoint, it's been hard. On the other hand, some players that are focused primarily in Europe have continued to do very well. These are primarily newer entrants in the marketplace and as such, we see them continue to expand.

If you compare us to our peers, I would say that we have fared very well. I think that with our performance in the second half we will improve our position even more. That was your first question. Your second question related to?

Abba Horovitz: And just the second part is are you concerned at all that this idea, what America did, is possibly something that could spread to outside America to Europe as well?

Jean Noelting: We believe that Europe now is on a strong path to regulation. The one geography which could see some of the same legislation could be in Hong Kong, where the jockey club seems to have been affected by the Internet gaming.

The reality is that prohibition has only pushed the industry underground, and so a regulated solution, which we have always advocated, with the payment of taxes, I think will be the best option and certainly in the medium-term will be the preferred one.

So some slight risk, we don't think they're significant and even in the US you have a whole segment of the industry, such as horse track betting, which has now opened to the Internet. There's been a legislation in California to that effect and it just shows that over time it's the best example. Over time the situation will expand, will be regulated. It's a short-to medium-term issue.

Abba Horovitz: Okay, fair enough. Are you guys willing to venture on a 2003 EPS?

Jim Ryan: At this point in time, because of the uncertainty in the industry, we have yet to publish to the market 2003 guidance.

Jean Noelting: I think we will be looking at 2003 guidance as we enter the third quarter. This is, as I said, a year of transition. All the indications are that the first half will be difficult, second half will see growth again both top

and bottom line. We would like to see some examples of that before we finalize 2003 guidance.

Abba Horovitz: Okay, fair enough. Thank you.

Jean Noelting: Thank you.

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

Scott Preston: Hi, good morning guys.

Jean Noelting: Hi Scott.

Scott Preston: A couple of questions here. The lawsuits, you still have two more outstanding. Can we just get an update on those real quick?

Jean Noelting: The two that you're talking about, I assume, refer to Claude Levy and to Las Vegas from Home?

Scott Preston: Correct.

Jean Noelting: On the Claude Levy suit, we have responded and asked for material to justify the suit. The material has been late. We have been told that it may be coming. We don't have any substantiated facts to support that but we feel very strong about our position, and as such we don't have much more to add. On Las Vegas from Home, they are a licensee. They were in breach. We have filed a countersuit and we will pursue our options vigorously.

Scott Preston: Okay, so no real updates there.

Jean Noelting: No real updates, although you can be sure that we would take a very different approach if we felt we had any kind of exposure.

Scott Preston: Okay, and then just an update on the insurance claim. Where does that stand right now?

Jim Ryan: The insurance claim, we have attempted to try and track down the individual responsible for it. That has led us through the United States and into Europe, and at this point in time we have not been able to identify the individual responsible. That being said, it's our plan to continue to pursue the claim with our insurers and we're in the process of taking action in that regard.

Scott Preston: Okay, thanks. Two more quick questions. As a percentage of revenue, how big is your largest customer now, and then if you

can just walk through the cost structure. When I look at your guidance as far as revenue for the year, you would have to definitely ramp the cost from where they came in this quarter. Can you talk about where those cost increases will come from, what line items?

Jim Ryan: In terms of our largest customer, we do not report on a licensee-by-licensee basis. Certainly we have commented in the past on the size of our three largest customers and that's still trending in the order of magnitude of 70%. With regard to our expense growth moving forward, certainly we'll be continuing to make investments in software development and licensee support costs. Those are the two principal areas. So you'll see our software development and support line grow. It will grow commensurate with the revenue growth, not without. General and admin. expense, you'll probably see that number come down in the ensuing quarters. Finance and amortization will remain constant.

Scott Preston: Okay, thanks a lot guys.

Jean Noelting: Scott, just to add to what Jim said, the launch of the new gaming verticals is costly not only in terms of development, but also to make a splash as we introduce them to market. And so there's no question there was a lot of internal discussion when this situation in the US took place as to how we would manage this, primarily the bingo and the poker launch. And we've decided that certainly the model supports it, that it was best to keep those in a launch mode but it's certainly an investment position this year and we will start to see those investments in late second quarter to third quarter.

Scott Preston: Okay, thanks a lot.

Jean Noelting: Thank you.

Operator: Our next question is from David Schechter from Schechter Capital Management. Please go ahead.

David Schechter: Hi, good morning Jean.

Jean Noelting: Good morning.

David Schechter: The purchase of the stock during the quarter, was that all open market purchases or were there some private transactions as well.

Jean Noelting: Jim.

Jim Ryan: We had purchases by way of two means – Through a substantial issuer bid and through a normal course issuer bid. We purchased

165,000 shares through the normal course in the open market and the balance was done through the substantial issuer bid.

David Schecter: Being in the US, I don't understand that process.

Jean Noelting: The two processes are as follows. The normal course issuer bid is a filing we make with the OSC to allow us to buy on the open market up to 5% of our float with a certain maximum each month. We have purchased, under that program, about 160,000 shares. These are all on the open market and they're fully subject to regulation.

We also had announced, in the fourth quarter of last year, our intention to buy back 1 million shares. That program was coming to an end at the end of December and given developments in the company, had to be extended to January and therefore closed in the first quarter. That process was one where shareholders of Cryptologic would tender their shares at a price which was predetermined, and we purchased through that substantial bid, which is now closed, just over 1 million shares.

David Schecter: Was that open to all shareholders?

Jean Noelting: It was open to all shareholders and communicated a number of times both in written form as well as through conference calls.

David Schecter: And so anybody could have just submitted stock to that and taken their chances on getting in on that?

Jean Noelting: That is correct.

David Schecter: The other question is, the \$5.9 million that was invested in Sports.com, how does that compare to the revenue from Sports.com during the quarter.

Jean Noelting: The revenue during the quarter was nothing given that there was no casino for players to join. When we announced this deal we characterized the investment as one that has given us a much longer contract. This one is twenty-one years, and has given us a higher share of the revenue. As such, the investment is one that will see its value primarily as we go to next year and the years following because it needs to ramp up. The ability for us to have exclusivity with the marketing channel that is the largest outside of the US in terms of a sports portal and industry growth worldwide is something that was extremely important to us, so we're very pleased to have made that investment. On the casino, it's too early to tell but certainly you don't have to have a tremendous conversion rate when you talk those levels of numbers.

David Schecter: Very good. Thank you very much and appreciate you having the call again this morning.

Jean Noelting: Our pleasure.

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

Brandon Osten: Good morning guys.

Jean Noelting: Hi Brandon.

Brandon Osten: How are you doing?

Jean Noelting: Very well.

Brandon Osten: A few tough questions here. Okay, so let's start with revenues outside of North America, what was that last quarter? Did that go up sequentially?

Jim Ryan: Brandon, I don't have the specific details on last quarter with me. However that being said, there's on doubt it would have gone up as a percentage of the total revenue.

Brandon Osten: Okay. Now the dropping of the New Jersey civil suit, which is probably the most interesting thing to come out of this morning, they, according to your press release determined that Cryptologic and Wagerlogic had no wrongdoing from a legal point of view. What about the suit as it pertains to InterCasino?

David Outhwaite: That actually is covered in ours Brandon. Because we own the domain name, it's owned by Wagerlogic out of Cyprus, that was covered off in the settlement as well.

Brandon Osten: So then they determined that InterCasino was doing nothing wrong as well. Is that the implication there or that you guys don't have that much to influence over what InterCasino does?

David Outhwaite: Our representation was on the name, the domain name itself. The operating side of it is under CCMH and that is still subject to review by the New Jersey Attorney General.

Brandon Osten: Okay, so they basically determined that there's no legal connection between the operator of InterCasino and Cryptologic.

David Outhwaite: That's correct.

Brandon Osten: Okay, that's interesting. Okay well that's great. I guess those are the main questions I had at this point. Thanks a lot.

Jean Noelting: Brandon, there's no question the civil suit is an important development for us. I have to tell you though that having an array of brands in the UK with Littlewoods, Sports.com, Ritz Club, now Dukes and William Hill, that is really second to none and I have to tell you, this, in my opinion, is certainly the most significant factor. We always felt good about the New Jersey situation. We have had discussions with them since they had filed it. Most of the other people that are being named are still being investigated so we feel very good about it. The fact that we've been able to establish the refocusing of our business outside of the US, that was very critical to us.

Brandon Osten: Actually, just a quick follow up. I know that the Bill, I think it's 3215, I think it is got marked up in the States last week. Do you guys know the detail of that mark up? I'm having a tough time getting that information right now?

Jim Ryan: We will follow up with you on the mark up. We're getting the details as well.

Brandon Osten: Okay great, thanks a lot guys.

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

Kevin Lo: Good morning gentlemen.

Jean Noelting: Hi Kevin.

Kevin Lo: I have a few quick questions. Can you first talk about your investment in SCG and why you made it and what that is about.

Jean Noelting: The investment in SCG was made primarily to quickly ramp up our business in North America with a high revenue share partner.

Kevin Lo: So this is actually a gaming operation?

Jean Noelting: SCG has two parts of their business. The major part is the sports portal, which has had tremendous traffic and that's the Sports.com business. Their subsidiary is Sports.com Gaming Enterprise. That business runs the gaming side. It's a 100% owned subsidiary of their business. They have started about nine months ago with a sports book which is fully regulated in the UK. They've decided to add new games, and that agreement that we have is that we will develop, we have the casino of course exclusively and we have the

first right for the other games with the high revenue share which is why the investment was made. But for us, the ability to quickly target Europe, and their betting channel does not accept any US bets so it's strictly a European focused business, that was very critical to us. In addition, Sports.com has journalists on the ground not only in the UK but also in Italy, in France, in Germany, in Spain. They cover sports locally, they have very good connections and so we did not have any licensee that had the breadth to expand in Continental Europe at the clip that these guys can expand. So we expect big things from his licensee. Of course, it will take a little bit of time to ramp up, but let's remember that Europe is very much where the US was two years ago and we expect that the first mover advantage will be a significant one.

Kevin Lo: And in terms of revenue contribution, what kind of revenue contribution are you expecting from this investment?

Jim Ryan: This year we have forecast a relatively small revenue contribution from the SCG investment.

Kevin Lo: Okay.

Jean Noelting: That being said Kevin, our share of the revenue would be over \$1.0 million. So I mean yes it is small but it's still an important one.

Kevin Lo: It's always nice to say that \$1.0 million is a small share.

Jean Noelting: The reason we say that is we're certainly not looking at a one year pay back but we're looking at anywhere between one and two and a half years. So it's something that's exciting for us.

Kevin Lo: Yes, sounds like a good investment. In terms of the credit card issue, obviously you're still having trouble in the US in terms of the credit card market. Are you seeing any of that problem in the foreign banks in Asia and Europe?

Jean Noelting: The issue that we will be facing as we develop the Asian business is not as much with the credit card as with the lower usage of credit cards, particularly as it relates to betting. As such, what we need to do is establish new payment options with partnerships with some financial institution in the Far East. The one market which we are going to monitor carefully is the one in Hong Kong. That being said, there is tremendous opportunity in all of Asia and Southeast Asia and we will need to have partnerships with financial institutions there to take full advantage of the opportunity.

Kevin Lo: So you're not seeing any of the same issues like in the US, the credit card rejections and all that in the foreign markets

Jean Noelting: David will address some of the specifics.

David Outhwaite: I think it's important to note that when we go into areas such as the UK where regulatory processes are in place, that also includes the banking environment. It includes the payment processing, money laundering guidelines and so on that have to be adhered to. So you'll see that any marketplace that has regulations will be advancing very quickly and you won't have the same blockage we get in the US where the regulatory is not in place yet. So we see much less in the UK, as an example, in the way of any type of refusals based on that fact that it is accepted, it's all coded properly, everything goes through their system but it's more of an accepted activity within the European corridor than it is in North America today.

Kevin Lo: Final question. Can you break down the number of payments using credit card and the number of payments using the alternative payment systems?

Jim Ryan: We actually don't split out our deposits by payment method. It's something we've always considered to be proprietary.

Kevin Lo: Okay. Great, well thanks.

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

Murray Baker: Hello guys.

Jean Noelting: Hi.

Murray Baker: I just wanted to get your assessment on Ritz and Dukes in terms of when you expect contribution to revenues and earnings and the degree of contribution you expect from those two.

Jean Noelting: We believe both will have some form of contribution in the second half. If we had to rank them, I think that Ritz has the cachet of the brand and tremendous partnership opportunity but in the short term they will likely take a little bit more time to ramp up. Dukes, because it has that tremendous connection with a very large marketing machine, has the ability to ramp up more quickly. So both will have a positive contribution certainly by the fourth quarter. We expect Ritz will be a spectacular opportunity over the medium to long-term, but likely to take a little bit more time to ramp up.

Murray Baker: Okay thank you and I wondered if I could get your assessment on margins as they are now and how you see them going forward?

Jim Ryan: Certainly for the first quarter our net margins were 25%, and moving forward for the forecast period we anticipate that they will improve and we'll finish the year out with a net margin in the order of magnitude of, bear with me, about 31%.

Murray Baker: Okay, and last question. Could you update us on the Jupiters situation, and comment maybe on the Australian market in particular?

Jean Noelting: Absolutely. The regulation in Australia is extremely comprehensive and has made the business of operating a casino in Australia very challenging. The sole remaining software supplier that had an operation running is a company called Access Systems, that has just gone into receivership during the first quarter. And the concern in that market and with an expansion of the gaming activity of the population which, as you possibly know has the highest penetration of gambling of any market in the world with about 5.5% of income spent on gambling which is almost five times the US average, created a situation where the new legislation makes unprofitable the model that we have developed with our customers Jupiters. At this time we're reviewing options but it's fair to say that it's unlikely that we can launch in the current environment, that they would launch in the current environment.

Murray Baker: Okay. Thank you.

Jean Noelting: Thanks. Now that being said, there's one thing I'd like to add, and that is the emergence of standards on the regulatory side are somewhat similar. While we see both Alderney and the Isle of Man taking advantage of the learning from previous regulatory experiences, a lot of the benefit that we have and the expenses that we have gone through, through the Australian experience, has been reused. So it's an investment that I think has been very well done and that will become more and more of a standard worldwide and as such, we're very pleased with it. Australia specifically, as a market, will take a little bit more time.

Operator: Thank you. Our next question is from Ronald Doeswijk a private investor. Please go ahead.

Ronald Doeswijk: Hi, good morning gentlemen.

Jean Noelting: Good morning.

Ronald Doeswijk: I have a question about Sports.com. When you initially announced it, in the press release there was mentioning a seven million

users and today there were four million users. So I was wondering how many there are actually?

Jean Noelting: The business of Sports.com has a very strong seasonal bias and their strong periods are both during Wimbledon, the Masters, and the British Open which they power on their sites, as well this year as the World Cup. During the high peaks, they will exceed the 7.0 million. The ongoing unique visitors is over 4.0 million. So the low level of the wave is at 4.0 million plus, the high million this year could go as high as 9.0 million.

Ronald Doeswijk: Okay, that's clear. Do we know how many of them actually place bets?

Jean Noelting: The business is extremely young but I think when you look at a user base that is more general in essence like the one they have, if you can do a conversion that would be in the 0.1%, you would be quite happy with that conversion rate.

Ronald Doeswijk: 0.1%.

Jean Noelting: Correct.

Ronald Doeswijk: Okay, I've heard Sportingbet has 0.5 million betting users.

Jean Noelting: Sportingbet is an interesting company that is making the majority of its profit in the US, none at this time from Europe, which is developing relatively slowly, and some from Asia. So if you look at their business model, they have made significant strides in the US with their latest acquisition but their European business has taken a little bit more time to develop and we believe, in part, it's because they lack an association with the Sports.com - like marketing machine or for example, lack of the same brand name that William Hill would have and the cachet they certainly command in the UK.

Ronald Doeswijk: Okay. You were mentioning before you were streaming your current client base. Can you discuss whether one or more license agreements will be terminated in the short term or not?

Jean Noelting: David will take that on. It's a very good question.

David Outhwaite: We've seen two things within our licensee base. One is the smaller cyber based players that can't afford to market or spend the money on marketing that is required in today's marketplace are obviously having trouble. In those situations, we've gone in and made them affiliates to other larger casinos that are making the marketing investment and have the people in place to market more effectively. So they direct traffic, in other words, to a larger

casino. In the case of some people, over the past two years we've gone through an increase in our probity we've done on licensees and we have in fact terminated five different contracts now and in some cases we've assisted them to sell the assets off, in other cases they've just been closed.

Ronald Doeswijk: Okay, are you willing to tell whether Monte Carlo Casino is also closed?

David Outhwaite: Monte Carlo Casino is still open pending the outcome of the law case.

Ronald Doeswijk: Okay. I have one more question. You sold Dot Com Entertainment Group. Are you willing to share your considerations now? It seems to be a nice investment.

Jean Noelting: We are not a venture capital firm. The company is one that we believe has good upside over the medium to long term, no question. They have a solid package. The reality is we have developed our own product, and as such the chances of us working together on a joint venture was more remote. We decided to get out of our investment at a time when we generated a return. There's still, as you know, volatility in the marketplace. We prefer to have the money in the bank.

Ronald Doeswijk: Okay, thank you for your answers.

Jean Noelting: Thank you. I would like to make one addition to a question that was asked prior with regards to the share buyback, particularly with respect to the substantial issuer bid, and that is that there is a strong belief within both the insiders, the officers and the directors that the strategy is working well. While there's a lag between the financial results and what we will see from the activity, we are certainly quite excited about the future and as such, no one has tendered their shares during the buyback.

Operator: Thank you. We do have a question, a follow-up question, from David Schechter from Schechter Capital Management. Please go ahead.

David Schechter: Yes, I wanted to follow up on the last question, a question about Sports.com. I went back to look at the press release from February 14th and it made me wonder, the press release points out that Soros and several others have already large investments in this. What did Cryptologic get for it's almost six million dollars? Do you own a common share position or what do you own in it?

Jean Noelting: Okay, let me compare this investment to investments you see in a number of other business segments where a supplier able to secure

very long-term deals under advantageous conditions, will make an investment. You see that in the manufacturing industry and supply chain, you see that in a number of different relationships. That is in essence the investment we made in Sports.com, and it gives us some measures of exclusivity, it gives us a high level of revenue share, it gives us a long term association in a market which we see as very attractive and certainly strategically very important to us.

David Schecter: I understand, but what is the form of the investment? Is it common shares, a preferred share position, a debt position, what is it?

Jim Ryan: What we have acquired is the higher revenue share on the casino, the exclusivity to the Sports.com brand and the marketing channel. We've also got an option to acquire the gaming business for a five-year period.

David Schecter: So no ownership interest, per se in Sports.com

Jim Ryan: No.

David Schecter: Okay, so in effect you're making a bet about a return on capital on the \$5.9 million that the extended terms of the deal and the higher share payout to you will pay back the \$5.9 million.

Jim Ryan: That's correct.

David Schecter: And you said earlier that that could be under various scenarios anywhere from a year to two-and-a-half years?

Jim Ryan: Yes.

David Schecter: What's your sort of mid point on that? Is it more like two years?

Jean Noelting: Well I think that we would like to be prudent and two years would not be unreasonable. It's difficult to see how Europe is going to ramp up. We certainly have some experience with some of our customers in seeing how quickly they've been able to achieve those levels and we feel very good about that investment.

David Schecter: Okay. Another follow up is that you said in today's press release you're going to renew the stock buyback program from May to May of 2003. The earnings estimates that you're giving, do they assume a certain level of stock buyback, a certain lower divisor?

Jim Ryan: They do not.

David Schechter: Okay, so what would be your plans depending upon your cash flow scenarios for how many shares you might buy back over the next year?

Jim Ryan: Certainly it's our intention to renew the normal course issuer bid solely to be opportunistic. So at this point in time we have no specific plans to buy back a certain number.

David Schechter: Okay, thank you again.

Jean Noelting: Thank you.

Operator: Thank you. At this time if you do have a question, please press one on your touchtone telephone. We do have a follow up question from Mathieu Roy from Louisburg Investment. Please go ahead.

Mathieu Roy: Thank you. Just a follow up on the top three customers representing 70%. Once you have Sports.com, Littlewoods and the two new ones up and running close to 100%, what would you say that your top three would represent then approximately? Would it go down significantly or not?

David Outhwaite: Mathieu, there's no doubt it's going to go down significantly. That is something that I'd be happy to connect with you after the call. I don't have the customer number forecasts for this year in front of me but just to give you an idea of what it will look like once they ramp, I would expect that number to be in the order of magnitude of 50%.

Mathieu Roy: Okay thank you. And just maybe another little thing. We used to get updates on US regulations, well not only US but also regulation industry developments via e-mail. Are you still providing that or is just that there's no real development to communicate?

Jean Noelting: We will certainly be happy to provide you with some updates and I'm happy that you're reminding us of that. I guess we have been a little bit busier with some day-to-day issues. We certainly will come back to it.

Mathieu Roy: Okay, appreciate it. Thank you.

Jean Noelting: Our pleasure.

David Outhwaite: One follow on to Mathieu's question is that the mix of the top three customers has changed in the last year and a half. So it's important to note it is not the same three that are in the top three today that were two years ago.

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

Murray Baker: Yes, I wondered if you could update us on the Nevada situation in terms of the regulatory climate and any developments in terms of legalization there. And also, any progress with respect to the legal firm that you've hired to look into these matters.

David Outhwaite: The Nevada situation continues to move forward and right now there's consideration being placed on a position being put forward by the Federal Justice Department on the whole business within the US and a lot of people are waiting to see the outcome of that. Nevada does continue to make forward progress. It is slow, there's no question of being very cautious at how they come at the marketplace. On top of that, we're also encouraged by what we're seeing in New Jersey as far as legislation being formed there and we anticipate that being introduced before long. Our legal firms in the US, in Nevada, New Jersey and Washington, continue to work on this issue. They continue to look at the legislation going through to ensure that we have proper lobbying positions in place to really take the position forward that we have always advocated, which is fair and safe gaming through regulation, not prohibition.

Murray Baker: Okay, thank you.

Operator: Thank you. We do have one final follow up question from Ronald Doeswijk, a private investor. Please go ahead.

Ronald Doeswijk: Yes, one more question. What kind of conversion rates are you looking for at Littlewoods?

Jean Noelting: Littlewoods, as you know, has 1.6 million customers weekly on the sports pool. The marketing plan is certainly something that's private to them and I don't want to divulge it. But they certainly expect there to be a very significant ramp-up and a relatively quick ramp-up given the number of people they have contact with on a weekly basis and that the propensity to go on an Internet casino when you already participate in some form of betting is considerably higher than that of the sports enthusiast who goes on the site to get an update information on sports results. One thing I would also like to add is one of the reasons we're also very excited about our association with Sports.com is that they are developing, for their own betting channel, some sites which provide information not only on events that are in progress or have just completed but they are preparing sites now in different languages for the upcoming events to provide the information that the typical bettor would look for.

So the association is an interesting one because we found a team there that was focused not only on their core business but also to develop that segment and to utilize the resources they have, the reporters and their knowledge of sports

events to be able to provide the kind of information that a bettor would look for. And typically the bettor looks forward to the upcoming events rather than backwards to the events that have just completed. So there is a lot going on. With respect to your question on conversion, certainly Littlewoods should have a very nice conversion rate.

Ronald Doeswijk: Thanks.

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 Mr. Noelting.

Jean Noelting: Thank you. Just a few short words in conclusion. You will see that for the first time instead of having the typical one press release with information embedded we have clearly separated it into three. We have changed our initial position which was to release information on an as it comes basis to provide a more strategic frame work on making progress and look at all these activities. And I just want to tell you that while I am not happy with our financial performance today, I am extremely pleased with the progress we have made and that while last year, the first six months was a period of somewhat euphoria, there were areas of vulnerability in our business model that were exposed. I think these areas apply to most of the players in the industry. We have moved quicker than most to address them, and I'm extremely pleased with where we are. So from a company standpoint, where we had a reliance on few customers, few products and one geography, you will have a company that is very well positioned with some wonderful partners. So we will see some improvements. They will be very substantial and you can count on this company to remain very solidly focused on generating cash and profits. Thank you.