

CryptoLogic, Inc.
2002 3rd Quarter Conference Call
November 8, 2002

Operator: Good morning, ladies and gentlemen. Welcome to the CryptoLogic third-quarter 2002 financial results conference call. I would now like to turn the meeting over to Mr. Lewis Rose, Interim President and Chief Executive Officer. Please go ahead, Mr. Rose.

Lewis Rose: Good morning everyone. Welcome to CryptoLogic's third-quarter 2002 financial results conference call. My name is Lewis Rose, and I am the Interim President and CEO of CryptoLogic. With me today is Jim Ryan, our Chief Financial Officer, and Nancy Chan-Palmateer, our Director of Communications.

Since joining CryptoLogic a little more than three months ago, I have been and continue to be very impressed by the fundamental strength of this company and its business.

CryptoLogic's competitive advantage in the global e-gaming market is built upon two pillars: integrity and innovation. We have a solid business model and one of the strongest balance sheets in the business.

We lead the industry in promoting safe, secure and responsible Internet gaming in markets around the world. And we provide our customers with among the most comprehensive, reliable and advanced suite of products in the industry today.

CryptoLogic's growth strategy leverages these strengths in three ways:

- First, we're focused on top-tier customers in international markets like Europe and Asia .. successful, reputable gaming brands that are looking to leverage their brand equity on the Internet;
- Second, we are leading the way in regulatory compliance;
- And third, we're developing a broader range of products across the gaming spectrum that allows our licensee customers to enter new markets and drive organic growth.

I'd now like to describe how we've advanced these three elements of our strategy in the third quarter.

First, we demonstrated our focus on top-tier international customers by enabling the launch of not one but two major casino sites by brand name customers, Littlewoods Leisure and the Ritz Club London.

The Littlewoods brand is well recognized in the U.K., and its sports pools and lotteries are enjoyed by more than 1.5 million customers each week.

The Ritz Club London Online is a superb brand name that entered Internet gaming in the third quarter with a WagerLogic-powered site. CryptoLogic is very proud to have been selected to develop the Internet presence of one of the most recognized and prestigious gaming brands in the world.

We are pleased with the performance of these new licensees to date. We expect their sites will continue to ramp up nicely during the rest of 2002, and make a significant positive contribution to expanding CryptoLogic's international presence and revenue base in 2003 and beyond.

Second, our leadership in global regulatory compliance. We achieved a major milestone by having our software certified in the Isle of Man, a Tier-one jurisdiction, with some of the toughest standards in the world.

As one of the few suppliers whose software has been certified to these high standards, CryptoLogic has a significant competitive advantage and point of difference when dealing with large customers looking to broaden their brand appeal over the Internet in a regulated environment.

Third, we launched exciting new products in the third quarter. CryptoLogic is committed to driving organic growth by providing its customers with the most comprehensive, integrated suite of multi-lingual, multi-currency gaming products available.

We increased to six the number of localized casino products released in 2002 with the addition of Italian, French and Chinese language versions. These complement the German, Spanish and Japanese products launched in the second quarter, and enable our customers to target the key geographies around the world for broader global appeal.

We enhanced our bingo product significantly with the release of version 1.1. Recognizing that speed and continuous play are key features for bingo players, we modified the software to speed up downloads and enhance the product to enable players to participate in more games per hour.

To make bingo more appealing to all of our licensee customers, we have also incorporated the ability to operate bingo as a stand-alone offering by a single casino, or as part of a central bingo hall that draws players from numerous customer sites, increasing the overall player base.

And then there's poker -- an exciting new product that creates a critical mass of players through a central site concept where all licensee casinos feed into a single poker room.

Critical mass is key to a successful poker site. Our strong international base of licensee customers will generate player traffic for more hours throughout the day by taking advantage of prime playing time in countries around the globe.

And customization for each licensee means that when players enter the poker room from their favourite licensee site, they will maintain the familiar look and feel of their trusted brand.

Player response has been extremely positive, and we expect to gain traction quickly as more customers add poker and as marketing takes effect.

As well, the integration of all CryptoLogic products means that players can play casino games, bingo and poker using a single ECash account. That's a decisive advantage for our customers, for their players, and for us.

In line with our ongoing commitment to customer responsiveness and to delivering market oriented product solutions, we have and will continue to implement performance-based compensation structures whereby senior employees and key managers will be compensated based on specific deliverables.

As well, as part of our transition to more professional management, we have retained an executive search firm to recruit a Chief Technology Officer.

We intend to attract a senior executive who will provide technological and strategic leadership in the development and delivery of products that meets the needs of international brand-name customers as their operations continue to become increasingly sophisticated.

CryptoLogic is committed to offering players at our licensees' casinos a broad range of payment options. This is especially important in light of the decision by some US-based banks to limit the use of a credit cards for Internet gaming transactions, as well as PayPal's decision to cease the processing of these transactions effective November 24th, 2002. While this poses a potential risk to fourth-quarter revenues, as we have previously mentioned, we've established a task force headed by our Chief Financial Officer, Jim Ryan, to implement non-credit-card-based payment alternatives to mitigate the impact of this US situation. In the third quarter, CryptoLogic implemented telephone and e-wallet-based payment applications. Further solutions will follow by the end of the year.

The outlook for CryptoLogic remains positive and profitable, particularly as we continue to grow our business in regions where Internet gaming is an accepted, regulated form of entertainment.

And let's be clear, the move towards strictly regulated online gaming continues to gain momentum around the world, particularly in Europe where we have focused our resources.

There's a growing consensus that recent US efforts to enact legislation to prohibit Internet gaming will not succeed, like all those before it. The current bill would require approval by both the Senate and the President before the current Congress ends, and

it's extremely unlikely that this will happen as there continues to be considerable opposition to this bill.

Significantly, any renewed attempts at anti-online gaming legislation must start from scratch when the new Congress convenes in 2003.

The reality is that Internet gaming is here to stay. CryptoLogic has always advocated that regulation is the best option for governments, players and the industry. We will continue to lead with our efforts to embrace Tier-one regulations such as those in the Isle of Man and Alderney.

In line with management's commitment to align its interests with shareholders, senior management and directors bought 30,000 common shares through open-market purchases during the quarter. As part of our commitment to enhance shareholder value, the company also repurchased 70,000 shares during this period through its Normal Course Issuer Bid. An additional 40,000 shares have been repurchased since the end of the quarter, and we will continue to closely monitor market activity and use the buyback judiciously to benefit shareholders.

There is no doubt that 2002 has brought many challenges for the whole Internet gaming industry - but CryptoLogic's strong balance sheet, smart strategy and exceptionally qualified and talented people have enabled us to perform well in line with revenue estimates and exceeding our earnings target in the third quarter.

This reflects a back-to-basics approach and focus on fundamentals we promised three months ago. It's about generating sustainable cash flow and earnings. It's about controlling costs and setting clear measures for performance, and it's about setting expectations and meeting them. We achieved this in the third quarter, and we will continue to deliver on our commitments.

Jim will now speak specifically to our financials.

Jim Ryan: Good morning. It's a pleasure today to present to you our third-quarter financial results. My presentation will consist of a commentary related to the main components of our income statement and key financial indicators. As a reminder, all figures are in US dollars.

Details on the company's revenue performance is as follows. Third-quarter revenue of \$8 million, was on target and within the guidance provided. The typical slow seasonal trend experienced in the online gaming industry during the summer months resulted in a revenue decline in our third quarter from that of the second. We will experience a return to revenue growth in our fourth quarter.

Revenue on a year-to-date basis is \$25.6 million, down from \$32.4 million for the same period in the prior year. Lower year-over-year revenues reflect the challenge being faced by the entire Internet gaming industry as a result of the decision by certain US

banks to limit the use of their credit cards for Internet gaming transactions. To mitigate the impact of this situation, the company has enabled its licensees to add non-credit-card-based payment options. The company is committed to providing the broadest possible range of payment alternatives to its licensees. Implementation of a number of options is anticipated over the balance of the year. More importantly, the company will continue to focus on accelerating its business expansion into international markets where online gaming is regulated and an accepted form of entertainment.

For the year, the company has experienced positive momentum towards its objective of increasing its international revenue base. Revenues generated by licensees from international players in the first three quarters was approximately 40% versus that of 29% in the same period last year. Licensee revenues from the United Kingdom and Europe will continue to grow, given the addition of brand name players such as the Ritz Club and littlewoodscasino.com and the introduction of new localized products to better serve the needs of international players.

Software development and support costs include all personnel, licensee support, customer service costs and compliance-related expenditures. These costs declined by 5% to \$14.6 million for the first nine months of the year. Some of the projects included in these costs are the development of our new Java, bingo and poker games, as well as ongoing development of our core technology and our regulatory compliance efforts. It's important to note that we expense 100% of software development costs as incurred, and in the first nine months of the year we've expensed all costs related to new products such as bingo and poker.

General and administrative expenditures were \$4.4 million for the first nine months of 2002, an increase of 61% from the previous year. The primary factors contributing to the increase relate to business development efforts as the company pursues international licence opportunities, infrastructure costs associated with the establishment of our UK-based operations, and expenses related to defending various legal matters.

The company posted a net income of \$0.11 per diluted share, or \$1.3 million, for the quarter. We are pleased to report that this result is ahead of our guidance of \$0.8 per diluted share for the quarter. For the first nine months, net income before non-recurring items was \$5.5 million, or \$0.43 per diluted share, compared with net income of \$14.4 million, or \$0.95 per diluted share, in the corresponding period in 2001. Including the special charge taken in the second quarter, net loss for the first nine months of 2002 was \$4.3 million, or \$0.35 per diluted share. The primary cause for the decline, excluding the impact of the special charge, relates to revenue challenges associated with the US credit card situation and the reduction of interest revenues.

Given the current business environment, our near-term focus will remain squarely on the implementation and execution of existing initiatives. While profitability will continue, we are keeping a close eye on the costs with a view to ensuring our expenditures are producing an appropriate return. During the year, we have reduced head count by 16%,

we have completed the consolidation of our customer support organization to the United Kingdom, implemented a head count and capital asset freeze, and are currently reviewing a number of other cost savings opportunities. Our cost control efforts will be somewhat offset by higher processing costs as we initiate new payment alternatives and increased investments in licensee support.

Cash flows for the first nine months of the year, the company generated \$2.2 million of positive cash flow from operations during the quarter and \$6.3 million for the nine-month period. Our cash and cash equivalents position as at September 30th was \$41.5 million.

I will turn the call back to Lewis.

Lewis Rose: Thanks, Jim. While the future will bring challenges, it remains very bright. Analysts continue to project significant growth in the global Internet gaming industry, and CryptoLogic, with a strong balance sheet, smart strategy and talented people, will be able to capitalize on this exciting potential.

I'm now pleased, with Jim, to answer any questions you may have.

Operator: Thank you. We will now take questions from the phone lines. If you have a question, please press 1 on your telephone keypad. If you are using a speaker phone, please lift the handset and then press 1. If at any time you wish to cancel your question, please press the pound sign. Please press 1 at this time if you have a question. There will be a brief pause while the participants register for questions. Thank you for your patience.

Our first question is from Scott Preston of Research Capital. Please go ahead.

Jonathon Wiesblatt: Good morning, gentlemen. It's Jonathon Wiesblatt on the line.

Lewis Rose: Good morning.

Jonathon Wiesblatt: Congratulations on a great quarter.

Lewis Rose: Thank you.

Jonathon Wiesblatt: Can you guys discuss the progress of new licensees?

Lewis Rose: It is a priority for us to continue to grow the business, and particularly grow the business internationally. As you can appreciate, we do not comment on specific licensees until they've signed, but we continue to make good progress both in terms of specific products now that we have bingo and poker as alternative offerings to our traditional casino range, and in terms of the entire suite of

products that we can offer. So the pipeline is slowly starting to build, but we are not in any position to make any announcements until we actually sign new licensees.

Jonathon Wiesblatt: Okay. And with the most recent election in the US and the win by Senator Leach, what do you guys believe is the time progression of any new legislation?

Lewis Rose: The elections in the United States still have not established the composition of the key committee structure that ultimately will determine the impetus of the legislation in the United States. My thinking is that in 2004, we will be seeing in the United Kingdom a regulated environment for online gaming. So to the extent that there is a stalemate in the United States in 2003, it'll be an interesting environment in 2004 to see when a very significant country embraces online gaming with regulatory environments in a regulated system and structure (i.e., the United Kingdom) and the United States potentially having the conundrum of considering anti-Internet or anti-online gaming legislation when a jurisdiction as significant as the United Kingdom will embrace and then implement the recommendations of the Budd Report for the regulation of online gaming.

Jonathon Wiesblatt: Okay. And have there been any push-backs on royalties? I don't know if you guys want to comment on any trends in that particular area.

Lewis Rose: Well, I think what you're asking is to what extent is the competitive environment having an impact on royalties. The market place continues to be competitive. We continue to develop and implement new product solutions like poker and bingo to provide alternative and incremental sources of revenue to the company. We are focused now on a scalable revenue structure: in other words, you award customers based on volume, and you incentivize customers based on volume, which inevitably means that we will continue to gravitate towards large customers: international based, brand named, substantial customers.

Jonathon Wiesblatt: Okay. And lastly, can you guys comment on the feedback with the second version of bingo from your customers, and is it fair to assume that the percent of revenue from the quarter was 40%?

Lewis Rose: I'll answer the first question first. In terms of bingo, the feedback has been positive. It's still early days, but it has been positive. In terms of the 40%, can you rephrase the questions?

Jonathon Wiesblatt: What was the percentage of revenue from the international community?

Jim Ryan: Just shy of 40%.

Jonathon Wiesblatt: Okay. Thank you very much, gentlemen, and again, congratulations.

Lewis Rose: Thank you.

Operator: Thank you. And our next question is from Murray Baker of Money Smart. Please go ahead.

Murray Baker: Congratulations on the quarter. I wonder if you could comment on the details of the lawsuit settlement with the Las Vegas From Home.

Lewis Rose: The settlement was one that we both agreed to. We're both comfortable with it. From my point of view, I'm happy to put any litigation behind us. Not material in the context in any way, and it's just a page, chapter turned and closed.

Murray Baker: Okay. And can you also tell me what are your projections in terms of the eventual contribution of the Ritz and Littlewoods towards earnings for CryptoLogic? Do you have any sort of target or projection as to what contribution it'll make?

Lewis Rose: Well, both new licensees are ramping up nicely. They are ahead of expectations at this point, but as you can appreciate, we do not provide individual customer licensee revenue breakdowns for obvious reasons.

Murray Baker: Okay. And finally, do you have any targets as to number of new licensees you're trying to bring on board for the remainder of the year?

Lewis Rose: Well, traditionally we've aimed at achieving four new licensees on an annualized basis. That is something that we are reviewing internally because, as I said earlier, one of our opportunities now is to develop licensees with the focus on specific new products — for example, bingo or poker — because they are new to the market. So we may not end up with new licensees that are the traditional all-encompassing licensee. So we are aiming at four on an annualized basis going forward, but that may change — i.e., increase.

Murray Baker: Okay. And last question, could you update us on what you see as the opportunity with the release of the Chinese version and some of the multi-language versions and how you see that playing out in the next one or two years?

Lewis Rose: We've been successful in launching the foreign languages. The next step now is to market them effectively, and so we are now putting in plan a program for more localized country marketing to better utilize the fact that they are out there and they exist. Not everybody knows that we do have foreign language versions available, so it's our task now to market the versions effectively.

Murray Baker: Okay. Thank you.

Operator: Thank you. And our next question is from Jenifer Taylor of Royce Funds. Please go ahead.

Jenifer Taylor: Hi. Good morning. A couple of questions here. First one: Just in terms of the competitive landscape, given the payments problem, how has that changed the environment for you guys negatively or positively? Are more of the competitors looking to Europe as well — or internationally rather? I'm just wondering if you could comment on that.

Lewis Rose: The UK has been an attractive hunting ground, so to speak, for companies like ours because of the embracing of online gaming in terms of a regulated environment to 2004. Having said that, we have established a blue-chip roster of international brand name customers in the United Kingdom with William Hill, Ritz and Littlewoods leading our roster. So the European focus has been one that many competitors are looking at. Our advantage is that we have a superb suite of gaming products, we have an integrated ECash solution, we have a strong balance sheet and we have a reputable and growing and successful client base. So in terms of our competitive advantage as we approach customers in Europe, we have a number of competitive advantages, not the least of which is the fact that we've achieved Tier-one jurisdictional compliance with our certification in the Isle of Man. That is a significant milestone in the evolution of CryptoLogic and a significant competitive advantage as we compete in the international market place.

Jenifer Taylor: Are there other companies that have received that as well?

Lewis Rose: There are, but they're a handful.

Jenifer Taylor: And from that vantage point, that pool of competitors has got to be probably in a relatively similar position.

Lewis Rose: Not necessarily. Not everybody has the strength of CryptoLogic — i.e., the integrated ECash solution, poker and bingo product offering which complements both our traditional download games and our newly released Java versions of the casino games, and the fact that we have a customer support centre based in the UK. There are a lot of advantages and competitive reasons why a licensee would choose CryptoLogic over anybody else.

Jenifer Taylor: Okay. And regarding the search for the Chief Technology Officer — and I forget the gentleman's name who's left, I apologize. Did he have a non-compete?

Lewis Rose: The answer is yes. The gentleman you're referring to is Anatoly Plotkine. Anatoly was instrumental in growing this business, a remarkable

man, and exceptionally smart gentleman. He was instrumental in our success in many ways. He has not left permanently, to that extent. He will continue on as a technical advisor to me over the coming months, but would not continue on in an executive capacity on a day-to-day basis. Separately, we will be looking for a Chief Technology Officer effective today, and that is an important part of the evolution of CryptoLogic now into a continuing, professionally managed and growing organization.

Jenifer Taylor: Okay. Is there a short list to start with, or are we pretty much starting from scratch here?

Lewis Rose: Well, we have an executive search firm that we have now retained, and we'll be combing the landscape to find the absolute best candidates to move CryptoLogic to the next level.

Jenifer Taylor: My last question is have you given any sort of specific guidance for fourth quarter? I don't know if you've talked about really '03 much.

Lewis Rose: We have given guidance for the fourth quarter. We had indicated previously that the guidance for revenue is \$8.9 million and net income of \$2.2 million with fully diluted earnings per share of \$0.15. And we also have indicated that the risk to achieving that is a consequence of the PayPal decision to exit processing gaming transactions on November 24th, and that is an unpredictable event — not the announcement. The announcement was predictable, but the consequences are unknown at this point. Having said that, we have introduced a number of payment alternatives such as telephone billing and e-wallet, and we'll continue to work towards the implementation of further alternative payment solutions, some of which we will have in place by the end of the year.

Jenifer Taylor: Right. And during the third quarter, how much of revenue was PayPal?

Lewis Rose: On a run-rate basis, PayPal represents approximately 15% of our deposits.

Jenifer Taylor: That would be 15%?

Lewis Rose: Yes.

Jenifer Taylor: Okay. Thank you.

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

Brandon Osten: Hi, guys.

Lewis Rose: Hi, Brandon.

Brandon Osten: Welcome back, Nancy.

Nancy Chan-Palmateer: Thank you.

Brandon Osten: All right. Jim, I guess my questions are more or less directed at you. The breakdown in terms of revenues for the quarter, you gave out the numbers in the past and I don't know if you're giving them out still. I get the sense that the rest of world or international revenues is about \$3.2 million and US was about \$4.8 million. Is that right?

Jim Ryan: International revenues were just shy of 40% of the total.

Brandon Osten: So just under \$3.2 million.

Jim Ryan: Correct.

Brandon Osten: Of the \$4.8 or \$4.9 million in the US, how much of that was credit card?

Jim Ryan: That particular data point, Brandon, we haven't published.

Brandon Osten: Oh. Okay. In terms of William Hill, when does your current agreement with them expire or need to be renegotiated by?

Lewis Rose: Our agreement with William Hill continues to 2004, and we are in discussions with them on a number of new products that we have introduced, and we're very optimistic that they will be launching the new products come the new year.

Brandon Osten: Okay. And in terms of intricacy, do you guys still disclose percentage of revenues from those guys?

Jim Ryan: Brandon, in terms of our top five customers?

Brandon Osten: Yes

Jim Ryan: 89% of our revenue was derived from that client base.

Brandon Osten: Can you give me the top three?

Jim Ryan: Top three was 82%.

Brandon Osten: Okay. The guy who's working with Scott Preston was asking about the elections in the US. Do you have any additional colour? I mean, obviously the Republicans winning both houses is not as good as if the Democrats won. Do you have any sense of the changes in the Senate and who might be spearheading the process there? I also read something recently suggesting that the White House was going to try and move forward this year, although it still seems highly unlikely that they'll be able to force it there. I was just wondering if having the Republicans in the Senate, which has been the hold-up, changes things a bit for you.

Lewis Rose: The key, Brandon, is going to be the composition of the committees going forward and the nature of the individuals who will be either leading or on the particular committees. We don't expect any changes this year, as you point out and we concur with your view that it's highly unlikely that there will be any legislation passed this year. There are just too many obstacles and not enough time. As far as next year is concerned, it's effectively a wait and see attitude because we don't know what the committee composition will be. Having said that, as I've said earlier, my optimism resides in the year 2004, because in the year 2004 we'll see a regulated environment in the United Kingdom and I'm hopeful that that will be a good example for the rest of the world, because we've said in the past and continue to say loudly and clearly that we would be 100% in favour of a licensed, regulated environment which would make the online gaming business transparent. We'd like to have the light shine through onto this industry and allow it to grow and flourish in a very regulated and licensed and controlled environment.

Brandon Osten: Okay. Last question. You guys had a target in Q4 of international revenues of 50%. Any chance you're still going to make that target, or do you have an updated target on when you expect to hit 50% or what you expect it to be in Q4?

Lewis Rose: As a company, we've said we would like our international licensee revenue to represent 50% or more of the total business. It's clear from the results to date that while we've improved substantially from approximately just under 30 to 40%, we will not achieve the 50% goal in the fourth quarter. Certainly it's a target that we aim for, and we will aim for that in the year 2003 going forward.

Brandon Osten: Okay. Sorry. Just one more. Just on the credit card front, are there any other banks — it's been pretty quiet lately. Have there been any other banks that have cancelled credit card privileges for you guys in the last two months?

Jim Ryan: No. It has been quiet, Brandon.

Brandon Osten: Okay. Thanks a lot, guys.

Operator: Thank you. And our next question is from Jason Keogh of MRS Securities. Please go ahead.

Jason Keogh: Hi. Good morning. Given the difficult US regulatory environment, have you been in contact with any of the major US casinos?

Lewis Rose: Our immediate opportunity clearly is in Europe, and so that's where our short-term focus is. We recognize that, should the United States open its arms toward the regulated environment, that there is significant potential with land-based operators in the United States. And so we have maintained contact and will continue to do so. Having said that, our focus absolutely squarely is on the international market place at this time.

Jason Keogh: Okay. Given that focus, have you made any progress on listing on a European exchange?

Lewis Rose: It is a consideration that we will be undertaking over the next number of months, and it is our intention with time to obtain a listing in Europe, and most likely on the London Stock Exchange. But as I said, that's not today or tomorrow, but clearly it is a focus of ours.

Jason Keogh: Okay. Thank you very much.

Operator: Thank you. Once again, if you have a question, please press 1. And at this time, Mr. Rose, I'm showing no further questions registered. I would like to turn the meeting back over to you.

Lewis Rose: Thank you. In our second-quarter conference call, I outlined CryptoLogic's near-term priorities based on our back-to-basics and focus on fundamentals approach. These were:

- First, to implement additional payment solutions for our licensees' players at their casinos. We've done this, and we committed to offering players the widest range of payment options.
- Second, to sharpen our focus on customer deliverables and satisfaction.

We've done this, by facilitating two new major brand-name customer sites, Littlewoods Casino and the Ritz Club London, in a timely manner. We launched the poker product offering and an updated version of bingo, and we added three new languages to our casino offering.

- Third, we said we wanted to return the company to both top and bottom line growth.

The advances we made in the third quarter give the company a very solid base to return to profitable growth.

By all measures, CryptoLogic remains a company with excellent value. With a strong balance sheet, no debts, increasing cash reserves and a solid, streamlined cost structure, solid business model, blue-chip customer base and industry-leading product range, CryptoLogic remains extremely well positioned to capitalize on the growing international e-gaming market.

Thank you for your attention today.