

**CryptoLogic Inc.**  
**2003 First Quarter Results Conference Call**  
**April 30, 2003**

**Operator:** Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the CryptoLogic 2003 first quarter results conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press \*0 for operator assistance at any time. I would like to remind everyone that this conference is being recorded and will now turn the meeting over to Mr. Lewis Rose, President and Chief Executive Officer.

Please go ahead, Mr. Rose.

**Lewis Rose:** Good morning, everyone. Thank you for joining us today for CryptoLogic's 2003 first quarter conference call. I am Lewis Rose, President and CEO of CryptoLogic. Also here with me today are Jim Ryan, our Chief Financial Officer, and Nancy Chan-Palmateer, our Director of Communications.

I am pleased to report that CryptoLogic is off to a very positive start in 2003. We said nine months ago that our principal focus is to leverage our strengths, get back to basics, and execute. And we are seeing meaningful results.

This is the third consecutive quarter that CryptoLogic has delivered solid performance - in fact, surpassing our expectations and those of analysts in this first quarter of 2003 and continuing our positive momentum.

CryptoLogic's fundamentally solid business, recurring revenue stream, consistent profitability and strong balance sheet - all provide the company with the financial leverage to advance our strategy as the industry matures and consolidates.

We provide one of the most comprehensive and expanding suite of products that is innovative, proven and delivers results for our customers - some of the world's best-known names in land-based and online gaming. We are also at the regulatory forefront, complying with the strictest standards available worldwide for online gaming.

We are leveraging these core strengths to ensure our long-term success. We have a clear growth strategy. We are staying this course and executing well against our three key imperatives as highlighted in our promising results this first quarter.

First, we are ensuring that our primary business is stable and profitable. To that end, we are providing our licensees with more tools and functionality to attract and retain players.

We are also offering new games and services that appeal to a broader gaming audience to drive organic growth and higher revenue opportunities.

We remain focused on leading international, brand name customers as global markets continue to offer the best near-term growth prospects for online gaming. In fact, we are delighted to have recently extended our existing casino contract with William Hill as well as securing a four-year exclusive agreement for them to use our poker offering.

CryptoLogic's other international, land-based customers also delivered encouraging performance during the first quarter. The Ritz Club London Online and Littlewoods Gaming continue to build and we expect them to join our top-producing customers.

As a result, international revenue from our licensees continues to rise, approaching 50% by the end of the first quarter compared to just 40% in 2002.

In the first quarter, we also signed two new international customers - already halfway towards our goal to add four new customers for 2003.

We added Bingo Entertainment, one of the Internet's largest bingo operators. They chose our multi-player poker technology to extend our gaming solution to their 120,000 players. Their new poker site, PokerPlex, was launched on April 14<sup>th</sup>, 2003.

Soon after, we signed ukbetting, a licensed and regulated online sports book with 145,000 bettors and the largest independent sports content provider in the United Kingdom, reaching 3.5 million European sports fans each month. By leveraging our casino and poker products with its large player base, ukbetting should add positively to our global expansion.

Our second key imperative is to offer the broadest, market-driven product suite to our customers. CryptoLogic is best known for its innovative technologies, which have enabled our customers to build some of the most successful casino sites on the Web today.

Our new products enable our customers to enter profitable, high-growth game segments, and our most recent poker and bingo products are realizing on this promise. These exciting game offerings are on track to grow from just 1% of CryptoLogic's 2002 revenues to over 10% of our revenues in 2003.

Our centralized poker solution is particularly exciting and delivering impressive results for our licensees and for CryptoLogic. In six short months since launch, our multi-player, multi-currency poker software already powers one of the top ten poker rooms on the Internet based on player traffic and revenue.

The early success of our poker product has become a great calling card to attract new sales prospects as seen in the two new poker customers added recently.

Our third core focus is CryptoLogic's ongoing regulatory commitment. Why is this important? First, it speaks to the integrity of our company. We work with major organizations that have long-standing traditions and stellar reputations, and they depend on us for software that their players can trust.

Second, as more jurisdictions see the value of a regulated approach, few companies are in a better position than CryptoLogic to prosper in an increasingly regulated global market.

I am delighted that we achieved another regulatory milestone in the first quarter. We passed extensive government probity to become licensed in Alderney - a second strictly regulated jurisdiction for CryptoLogic and one of our goals for 2003.

CryptoLogic's regulatory lead remains a clear competitive advantage. We offer present and future licensees the choice of two stringently regulated markets for their online gaming operations that are comparable to land-based standards.

I am proud of all that we have accomplished in the first three months of 2003. We continue to stabilize our business, and we have new products, new international customers and new momentum. The result: meaningful returns to our shareholders.

Having said that, our industry continues to face challenges. Competing bills aimed at prohibiting or regulating online gaming continue to be debated in the United States. As recently as yesterday, there was a hearing in the Crime Subcommittee of the House Judiciary, presenting both sides, a very balanced argument, and suggesting that further consideration is necessary before any definitive decision should be made.

While every effort to propose prohibition has failed to date, this regulatory uncertainty in the United States remains a business risk that is tempering growth prospects for our licensees in North America. And this is precisely why we have moved steadily to diversify internationally.

CryptoLogic's long-standing position is that regulation is the best approach for all concerned. We continue to advocate this stance, and upon investigation, more and more people are agreeing with a regulated route. We applaud the UK's lead to establish a strictly regulated market by 2004/2005. In this business climate, our near-term strategy is clearly overseas.

We are making steady progress towards these three key areas. Our investment in an expanding choice of payment options is producing better-than-expected performance as seen in a very solid first quarter. These results are reassuring signs that our core business is stabilizing.

We are encouraged by our results to date and continue to be cautiously optimistic. Also, we have now firmly established an accomplished and performance-driven management team to continue our positive momentum and guide our global leadership.

Our international strategy is proving to be the right course. We work with some of the most trusted gaming companies in the world. Our regulatory leadership puts us in an enviable position today and for the future as government regulation proliferates worldwide. And the success of our new market-oriented and expanding product suite provides exciting, long-term potential.

Combine this with a healthy balance sheet, a consistently cash generative business and a highly committed and qualified management team - we have what is required to prosper and achieve superior performance.

Jim Ryan, our Chief Financial Officer, will now address how our progress has translated into solid financial performance in the first quarter.

**Jim Ryan:** Good morning. It's my pleasure today to present our first quarter financial results. My presentation will consist primarily of commentary on the main components of our income statement and key financial indicators. As a reminder, all figures are in U.S. dollars.

Details on the company's revenue performance is as follows:

First quarter revenue was \$8.9 million, compared to \$8.7 million for the same period in the prior year. Revenue for the quarter exceeded the company's published guidance of \$8.0 million to \$8.3 million and analysts' estimates of \$8.4 million.

We achieved better-than-expected results in the first quarter due to, firstly, the success of our recently introduced poker and bingo applications. Q1 results are ahead of plan and we are confident that the revenue from these products will meet our 2003 objectives.

Secondly, broader acceptance of alternate payment options. We are pleased to report that our commitment to offer the broadest range of payment options is paying off. The loss of PayPal has been mitigated and our licensee deposit volumes have now fully recovered. We are one quarter ahead of schedule.

Finally, increased contributions from international customers. CryptoLogic continues to experience positive momentum towards the objective of increasing our international revenue base. Revenues generated by our licensees from international players were almost 50% in the quarter, up from 40% in the previous year.

Software development and support costs include all personnel, licensee support, customer service and compliance-related expenditures. The company expended \$5.6 million on software development support costs in the first quarter as compared to \$4.8 million in the previous year. The increase in these expenses is in response to the changing market dynamics and CryptoLogic's international focus. Investments in key areas of our business are vital to ensure sustainability of our forward momentum and long-term growth.

As discussed during our last conference call, we had planned for increased investments in software development and support.

Investments made on the rollout of alternate payment solutions is certainly proving to be the right course of action, as reflected in our first quarter results. We are also targeting more resources towards our international business development and expanded U.K. operations to build and support a broader global customer base, increasing marketing initiatives and other product developments efforts.

Investments will also continue in our regulatory efforts as this will continue to be a key competitive differentiator.

It is important to note that we expense 100% of our software development costs as incurred.

General and administrative expenses were \$1.1 million for the quarter, an 8.5% decrease from the previous year. The decrease relates primarily to efficiencies obtained related to the Corporation's infrastructure costs. Included in the general and administrative expenses for the quarter is a net gain of \$31,000 recognized on the sale of 100% of the company's interest in HIP Interactive.

The company's net income for the quarter was \$1.8 million or \$0.15 per diluted share compared with \$2.2 million, or \$0.16 per diluted share in Q1 of fiscal 2002. The performance for the quarter was ahead of the company's guidance of \$0.10 to \$0.11 per diluted share and analysts' estimates of \$0.12 to \$0.13 per diluted share. Given the current business environment, our near-term focus will remain squarely on the implementation and execution of existing initiatives with a view to diligently managing expenses.

CryptoLogic's balance sheet strength continues to be a significant competitive advantage, especially as the industry experiences consolidation and creates attractive opportunities for growth. Cash from earnings was \$2.1 million during the first quarter compared to \$2.4 million in the same period last year. Operating cash flow increased to \$8.4 million during the quarter compared to \$2.8 million in 2002.

Increased cash flow is due to higher player deposits, lower reserve requirements with payment processors and the timing of accounts payable. We anticipate that the positive changes in working capital related to reserve requirements and accounts payable increases will reverse over the balance of the year.

CryptoLogic remains debt-free with total cash reserves of \$50.7 million and working capital of \$38.5 million, or US\$4.15 per diluted share and US\$3.15 per diluted share respectively.

I will now turn the call back over to Lewis.

**Lewis Rose:** Thanks, Jim. We are now pleased to open the call to questions.

**Operator:** Thank you. One moment, please. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press the \* followed by the 1 on your touchtone phone. You will hear a three-tone prompt acknowledging your request. Your questions will be polled in the order that they are received. If you would like to decline from the polling process, please press the \* followed by the 2. Please ensure you lift the handset if you're using a speakerphone before pressing any keys. One moment, please, for your first question.

Your first question comes from David Shore, from Desjardins Securities.

**David Shore:** Thanks. Good morning, guys. Congratulations on a good quarter.

Lewis, can you just talk about activities or anything that's going on with the land-based casinos and what they're doing?

**Lewis Rose:** Good morning, David. I assume you're referring to the US-based land-based casinos.

**David Shore:** Yes.

**Lewis Rose:** Well, MGM has received a license and is operating out of the Isle of Man, which is a tier-one jurisdiction, and MGM was one of the most vocal proponents yesterday in the House Judiciary debate on regulating online gaming and that they believe that online gaming is here to stay. There are a number of other US land-based casinos that are adopting a wait-and-see attitude before they proceed with online gaming initiatives.

The Venetian, for example, has now received a license in Alderney. They received a license at the same time as we did. So there clearly is a movement towards experimenting, participating in online gaming in various ways.

Harrah's, for example, has a play-for-fun site that operates currently and what we are seeing is certainly a huge amount of interest and a cautious approach to investigating or initially participating in online gaming.

**David Shore:** Okay. What's the competitive situation look like now?

**Lewis Rose:** The market continues to mature and evolve and CryptoLogic, as you know, having been the pioneer in the industry, continues to focus on delivering new products and new product opportunities. Poker, for example, is a very important way for us to obtain new business, both from a competitive advantage point of view, given the liquidity of our poker room today, and we also use our regulatory compliance as a competitive advantage when approaching new customers.

The marketplace continues to be tight. There's significant competition and what we're seeing now is rather than simply offering a broad range of products to new customers, which includes the casino offering of our more than 60 games, people are tending towards specialist offerings. For example, Bingo Entertainment has taken up our poker offering, not our complete range of offerings at this point. We are hopeful that the opportunity for us to offer an entire suite will flow from offering a single specialized product. But that's what we're seeing in the marketplace today.

**David Shore:** Finally, what was the actual percentage from customers of international?

**Jim Ryan:** Just shy of 50%, David.

**David Shore:** Okay, thank you.

**Operator:** Your next question comes from Scott Preston, from Research Capital. Please go ahead.

**Scott Preston:** Hi, good morning, guys. Nice quarter.

With regards to that revenue split, has the end-of-the-year target changed at all given the improvements you've seen in the international market that some of the new customers signed?

**Jim Ryan:** At this point in time, it remains at 50%, Scott.

**Scott Preston:** Okay, so you don't see it moving much from these levels?

**Lewis Rose:** We are optimistic that the international component will continue to grow, but in terms of any public pronouncement, we plan to have our licensees' revenue from international sources exceed 50%. That's up from 40% last year and 45% at the year-end on a run rate basis. So it has climbed rapidly. At this time, we have not adjusted the 50%, although we do believe we will outperform that.

**Scott Preston:** Okay, great. As far as the revenue from new games, I assume most of that 10% that you guys are targeting is from poker. Can you talk about where bingo stands now and the kind of traction, lack of traction, and how you see that going forward this year?

**Lewis Rose:** Our poker offering has exceeded our expectations and grown very rapidly. Our bingo growth has not matched the acceleration that we have achieved with poker. We are optimistic that bingo can still achieve significant further growth. In our view, it's still early days. But you're absolutely correct, poker has considerably outperformed bingo at this point in time.

**Jim Ryan:** I will add that our first quarter bingo performance is ahead of plan. So we are optimistic with regards to that product.

**Scott Preston:** Okay, great. Just a couple more questions. Going back to David's comment earlier on the competition front, are you still seeing the pressure on the royalty rates? Is that partially some of the reasons why they are going with a bunch of different providers? Does it have anything to do with the level of royalties that maybe some of the smaller providers are willing to offer?

**Lewis Rose:** Scott, it's a combination of history and the current environment. Some of the providers, example, Bingo Entertainment, has already engaged an existing bingo supplier. So it is very difficult to remove an incumbent. What we have done by offering a new product like poker is given ourselves the opportunity at broader revenue opportunity.

We continue to offer the important and larger licensees an incentive to grow their business by having reduced royalty rates above certain volumes. We obviously pride ourselves in the reputation that we have for integrity and innovation. We use the fact that we have regulatory compliance in two jurisdictions as a competitive advantage. We are prepared to recognize the changing marketplace and therefore respond to customers by offering lower rates at higher volumes.

**Scott Preston:** Okay.

**Lewis Rose:** As a competitive advantage, we also ensure that our customers are aware that we offer over 60 games. It's a complete suite of online games. And now, with Bingo and Poker, our e-cash and customer service 24/7 multi-language customer support, we offer a range of complete software solutions to our customers.

**Scott Preston:** Okay, great. Obviously the regulatory environment is pretty uncertain and no one really knows what's going to happen, but when you are planning your business for the balance of '03, what kind of regulatory environment are you guys predicting within that plan?

**Lewis Rose:** We are encouraged by the momentum that the regulated debate has undertaken in the last little while. Specifically, for example, yesterday there was a very balanced discussion and debate in the House, and we are cautiously optimistic that there won't be any negative decision in the short term. However, the uncertainty remains.

What we have said in the past and continue to say very loudly, Scott, and very clearly, is that we are 100% in favour of a licensed regulated environment, which would make online gaming business transparent. We would be thrilled for a light to be shined on the industry to allow it to grow, to flourish in a regulated licensing controlled environment. We believe that this is the way for players to enjoy a safe and fun experience; and as far as the U.S. is concerned, our view is that there won't be clarity in the short-term.

Having said that, I have to caution everybody that it's very clear that this is an uncertain future. We are focusing on our growth in Europe. We are focusing on our international business. We've signed new customers. We're growing internationally with our existing customers and we are planning on growth outside of the United States. We are not planning for growth in the United States.

It's been said to me that investors look at CryptoLogic as an international business with a call option on the U.S. That describes our thinking. We are not banking on growth in the U.S. at all through our licensees. We are focused on licensees with international presence and we are growing with licensees who have international operations.

**Scott Preston:** Okay, thanks a lot, guys, and congratulations on a good quarter.

**Lewis Rose:** Thanks, Scott.

**Operator:** Your next question comes from David Shore, from Desjardins Securities. Please go ahead.

**David Shore:** Jim, just back on the margins, G&A came in a little lower than what I thought it was going to be.

**Jim Ryan:** We anticipate moving forward, G&A will be in the range of \$1.1 to \$1.3. I think as we mentioned in our fourth quarter conference call, we had anticipated that G&A would come down this year and to the extent that occurred, we would look to reinvesting some of the savings into marketing initiatives.

**David Shore:** Okay, and on capex, what's the plan for the year?

**Jim Ryan:** We again in our fourth quarter indicated the budget was \$1.1 million and that remains the plan.

**David Shore:** Okay, and what's the current headcount?

**Jim Ryan:** The current headcount is 142.

**David Shore:** Lewis, what's happening in Japan?

**Lewis Rose:** Well, there's huge growth potential internationally and Japan and non-Japan Asia have witnessed tremendous growth in Internet usage. Frankly, while CryptoLogic has advocated growth internationally, our growth has come primarily from Europe and we see the Asian opportunity as being substantial, but we've never really developed substantially outside of Europe. This is one area that I'm now focused on, and as you know, it's a long sales lead cycle to achieve success in Asia.

We do have one Japanese licensee called Casino Inn, and while this is one opportunity that we have to grow going forward, by developing local contacts and local representatives in a much more meaningful way. We haven't been able to do that yet to date.

**David Shore:** Okay, thanks very much.

**Operator:** Your next question comes from Brandon Osten, from Sprott Securities. Please go ahead.

**Brandon Osten:** Hey, guys. Solid quarter. I was curious about the alternate payments which you've said that you've had some success there. What percent of your U.S. revenues are coming from alternative payments right now?

**Jim Ryan:** PayPal accounted for just north of \$3 million per month of deposits for our company, which was lost. And that was principally related to our licensees and their efforts in North America. We have replaced that entire amount with the new alternate payment options that we've introduced. In fact, we've replaced it and exceeded it.

**Brandon Osten:** Okay, so what percent of your deposits are now alternative payments? Do you know what that would be in terms of total U.S. revenues? Is it like 50% of total U.S. deposits are now from alternative payment methods?

**Jim Ryan:** We don't actually split out our deposits based on player source.

**Brandon Osten:** What would you view to be the degree of risk in terms of U.S. credit card originated deposits at this point?

**Jim Ryan:** Certainly in the first quarter, we did experience some challenge from that. We had a number of issuing banks discontinue processing of gaming transactions. But on the positive note, we did introduce a number of new payment options and continue to do so.

The nature of the payment options that we are introducing are non-credit based, and that's where the risk lies. It lies in the credit card arena.

So that risk remains real and it is directly linked to how the U.S. legislative issues get resolved. But that being said, as each month goes by, we introduce additional branded, non-credit card base solutions that mitigate that risk.

**Brandon Osten:** Do you have a way of quantifying what the risk is there to your business model?

**Jim Ryan:** Well, what we're doing is offering our customers the opportunity to offer their players the broadest range of payment solutions as they can choose. The payment options issue relates essentially to the United States marketplace for our

customers, the European and international marketplace for our licensees are unaffected by these concerns.

**Brandon Osten:** In terms of the U.S., do you find that you've had anyone switch to alternative payment methods whose credit cards weren't cancelled, or is it kind of a forced decision for your customers?

**Jim Ryan:** No, in fact our ultimate payment methods are branded solutions and very popular within the industry. We're talking about solutions like Neteller that are well known to the players. So it isn't necessarily a credit card rejection that takes them there. These are solutions that they can also use with other vendors.

**Brandon Osten:** What do you think would be the effect of negative U.S. legislation coming out on your alternative payment methods?

**Jim Ryan:** I think it would escalate the growth of the non-credit based payment alternatives.

**Brandon Osten:** Would it escalate the growth in terms of percentage of total deposits, or would it escalate the growth absolutely in that method? Would you see a Neteller or any of these others drop off if legislation moved against you, or is that not as much of an issue because it's not credit based?

**Lewis Rose:** The difficulty in answering a question like that, Brandon, is that it's a purely hypothetical question because we don't know what the legislation will require. If the legislation is aimed at payment methods versus ISPs versus individual actual players, it's going to establish a benchmark for answering the question. So I'd be happy to have a discussion with you following this call to go through the various scenarios.

We are focused on offering the broadest range of payment alternatives to our customers. We are seeing players taking up these options in the United States and what we're seeing outside the United States, which is really where our growth objectives are, is continuing improvement and momentum in international markets.

**Brandon Osten:** Okay, thanks a lot, guys.

**Operator:** Mr. Rose, there are no further questions at this time. Please continue.

**Lewis Rose:** Thank you. Ladies and gentlemen, I am proud of what we have accomplished in the past nine months towards stabilizing our business and establishing favourable momentum going forward - in fact, we are ahead of where we expected to be at this time. We are producing solid results in what continues to be challenging times.

We are a global leader in one of the fastest-growing markets on the Internet. We have set clear performance measures to return to long-term growth and reinforce our leadership. We

are delivering on plan. I'm confident that by continuing to execute well, we will reward shareholders with industry-leading returns.

I look forward to seeing you at our Annual Meeting of Shareholders on Thursday, May 1<sup>st</sup>, at 4:30 p.m. at the Metro Convention Centre in Toronto. If you are unable to attend the annual meeting in person, we can connect again when I shall share our continuing progress on our next quarterly conference call.

**Operator:**  
today. Thank you.

Ladies and gentlemen, this concludes the conference call for