

**CryptoLogic Inc.**  
**2003 Fourth Quarter and Year-End Results Conference Call**  
**February 26, 2004**

Good morning ladies and gentlemen. Welcome to the CryptoLogic Fourth Quarter and Year-End 2003 Results Conference Call. I would like to turn the meeting over to Mr. Lewis Rose, President and Chief Executive Officer. Please go ahead, Mr. Rose

**Lewis Rose:** Good day, ladies and gentlemen. Welcome to CryptoLogic's 2003 fourth quarter and year-end conference call. I'm Lewis Rose, President and Chief Executive Officer of CryptoLogic. Also here with me today are Jim Ryan, our CFO, and Nancy Chan-Palmateer, our Director of Communications.

2003 was a year of strong performance, of setting and delivering on our objectives, and strengthening our business and market leadership. By diversifying both our products and our geographic markets, and thanks to increased revenue from customers, CryptoLogic achieved record revenue and strong profits.

We focused on expanding our suite of games, honing our strong roster of international blue chip customers and investing in stringent regulatory certification. The result: a solid Internet business that continues to blend traditional economic fundamentals of earnings and cash generation with the vast potential of the growing global online gaming industry.

We've been disciplined in executing our strategy. We achieved record revenue that increased by 28% to \$44.2 million, while earnings improved 22% to \$9.4 million for 2003.

CryptoLogic's financial strength and cash generation enabled us to declare our first regular quarterly dividend in 2003. We paid our inaugural quarterly dividend in November. We are pleased that on the strength of our fourth quarter results, the Board of Directors has declared the next quarterly dividend of \$0.03 per share to be paid on March 15, 2004 to shareholders of record as of March 8, 2004.

We have established a firm foundation for 2004. We continue to invest in our business and build for long-term sustainable growth.

A year ago, I outlined three priorities for CryptoLogic. We succeeded in 2003 by executing these stated strategies:

1. International diversification;
2. Market-oriented solutions; and

### 3. Regulatory leadership.

Let me address each one in turn.

First, the international diversification of our business is reflected in the geographic composition of our licensees' revenue. More than 55% now comes from international sources, up from about 40% in 2002. We have experienced particular success in the United Kingdom, by reinforcing and expanding our relationships with some of the most prominent names in gaming. As a result, licensees' revenue from the UK reached 30% of overall revenue.

We achieved this by renegotiating and extending multi-year agreements for casino and poker with two key licensees that being William Hill and Littlewoods Gaming, both household names in the UK.

Our new customers in 2003 included ukbetting, the largest independent sports content provider in the UK, which successfully launched both our casino and poker offerings in the latter half of the year.

Shortly after the year-end, Betfair the world's largest online betting exchange also agreed to use our proven online poker solution to facilitate their expansion into this large, exciting growth market. The Betfair relationship is in perfect step with CryptoLogic's strategy of working with the best in international gaming. Betfair has the brand, the player demographic and the marketing might to build a profitable online poker business.

Our second stated priority is the diversification and delivery of market-oriented products. It's more than just offering the latest innovation. In today's increasingly competitive and more sophisticated online gaming environment, it is about delivering products that create value for our customers and their players.

Our poker and bingo offerings are in keeping with this approach, which enables our licensees to participate in these emerging lucrative, high-growth game segments. We've seen growth in bingo, but more particularly, in poker. Together, they accounted for more than 10% of 2003 revenue, and this compares to under 1% of revenue in 2002.

Undoubtedly, the most compelling story of 2003 is the spectacular rise in popularity of online poker. Internet poker has grown six-fold in the past year, and today, with an annual run rate approaching US\$750 million, there's still lots more room for growth. It's not just today's online players who are enjoying poker. We're also attracting the broader recreational and more traditional land-based players. This in turn, is fuelling market expansion.

CryptoLogic has quickly become one of the world leaders in Internet poker, and already powers one of the top ten poker rooms on the web. Today, six major

licensees use our poker solution, which is contributing to increased player traffic and enhancing financial results for both CryptoLogic and our customers. The introduction of online poker validates our product diversification strategy.

Online casino continues to be a core business for CryptoLogic. Ongoing rollout of new themes and variations of popular slot and casino table games and our bingo (now integrated with slots on the same screen) are creating marketing opportunities for our licensees, re-energizing their players and therefore, their bottom line and ours.

Third, CryptoLogic's regulatory leadership and commitment continue to be essential to our strategy and long-term future. We have long advocated regulation to foster a transparent, trustworthy, and enduring Internet gaming industry. Most recently, our software certification in Alderney has enabled The Ritz Club London Online, one of our prominent UK customers, to move its online casino to this world-leading regulated jurisdiction.

CryptoLogic is one of the few software providers in the world that is government-approved in multiple 'tier one' jurisdictions. And along with our public company status, this serves to enhance our transparency, credibility, and marketability.

We will continue to pro-actively adopt regulatory practices and conduct our business with the same stringency as our land-based colleagues, setting a high bar amongst our peers.

In keeping with this strategic stance, we are building on our September 2003 listing on the Main Board of the London Stock Exchange to ensure a strong and visible presence in the United Kingdom which in our view is the emerging global centre for regulated online gaming. While it will continue to take time to develop that capital market, we are building promising institutional and analyst interest. We are gaining new UK shareholders. This is diversifying our shareholder base into this gaming-friendly jurisdiction.

As part of our dedication to our clear growth strategy, we also remain committed to the principal of "ROE" or what we call 'return on effort', in everything we do. In other words, our time and finite resources are committed to the strategic activities and opportunities that generate the most value and return for our company, our customers, and our investors. To this end, we further honed our customer base by reducing our licensees from 21 a year ago to 11 by the end of the year. And that's by our choice. Our 2003 performance speaks to the success of devoting our efforts to growing and expanding our relationships with a core group of quality international brand name licensees.

As well, our resources are concentrated on the most attractive global markets that embrace Internet gaming. In the U.S. by contrast, prohibition initiatives continue as part of that country's legislative landscape. Current efforts remain in

the Senate, but no resolution is expected anytime soon. On the other hand, the UK is capitalizing and in fact, establishing itself as a world leader in interactive gaming.

The UK government has drafted online gaming regulation to ensure a fair, responsible, and commercially viable marketplace. The aim is to enact the new law by 2005, and establish a fully operational regime by 2006. CryptoLogic has been proactive with policy makers and industry associations throughout this process. During the year, we prepared a number of submissions in response to regulatory proposals, and engaged in constructive dialogue with supervisory bodies. We continue to contribute our expertise in the development of policies that affect the global e-gaming industry.

Our financial performance in 2003 is a clear indication of the effectiveness of our strategic plan. I will now ask Jim Ryan, our CFO, to review our financial results for the fourth quarter and the 2003 full year.

**Jim Ryan:** Good day. I'm pleased to report another quarter of strong financial performance and a positive conclusion to the year. I remind you that all figures are in U.S. dollars.

Fourth quarter revenue rose by 53% to \$13.5 million, compared with \$8.9 million in 2002. This translated into quarterly earnings of \$0.23 per diluted share, ahead of analysts' average consensus of \$0.20 and the 2002 fourth quarter of \$0.18.

For the year, we set a historic high in revenue, which rose by 28% to \$44.2 million, up from \$34.4 million in fiscal 2002.

The strength of our fourth quarter and 2003 results are attributable to greater international penetration in the UK and European markets, growing traction of our poker and bingo products, favourable impact of new casino games, expanded choice and ease of payment options, and successful marketing initiatives.

Operating costs comprise of software development and support costs that include all personnel costs (including stock option expenses), licensee support costs, customer service and related compliance expenditures. For the 2003 fiscal year, operating costs increased to \$27.2 million, compared with \$19.4 million in 2002.

The higher costs were consistent with planned investments in our business. Expenditures were related to international market development, product and services development, increased marketing and regulatory initiatives, increased processing fees associated with the growing business and expanding our e-cash application - all of these to support and sustain the growth of our business for the long-term.

As well, there was the added expense associated with the fair value of employee stock options granted in the 2003 year. CryptoLogic has adopted the amended recommendations of the Canadian Institute of Chartered Accounts with respect to accounting for stock-based compensation. In accordance with the new guidelines, the Company will expense the estimated fair value of employee options granted in the 2003 and subsequent fiscal years over the option-vesting period.

Consequently, our financial statements for the year ended December 31, 2003 accounted for an option expense of \$438,000 based on stock options awarded during the year. This translated into an earnings impact of \$0.03 per diluted share for the full year. Previous quarter comparisons have been restated to reflect the adoption of the amended guidelines. Subsequent years will reflect the accumulated impact of options granted in 2003 and thereafter.

EBITDA for the year increased by 33% to \$11.5 million, compared with \$8.6 million in 2002 before the non-recurring special charge. EBITDA margin remained at a solid level, rising to 26% as a percentage of revenue, compared with 25% in the prior year. This reflected the efficient management of expenditures in proportion to revenue generation to remain competitive and produce appropriate returns.

CryptoLogic delivered strong profitability in 2003. Full year earnings improved by 22% to \$9.4 million or \$0.75 per diluted share, surpassing analysts' consensus of \$0.73. This was also ahead of the comparable 2002-year result of \$0.60 per share before the special charge and a loss of \$0.17 per share after the special charge.

CryptoLogic has consistently maintained a strong cash base to fund working capital needs, strategic investments, and synergistic acquisitions. This trend continued in 2003.

As at December 31, 2003, we had no debt and our total cash position grew to \$67.3 million or \$5.34 per diluted share, which is comprised of cash and cash equivalent, short-term investments, and \$6.6 million in security deposits. CryptoLogic's working capital rose to \$44.7 million or \$3.55 per diluted share.

Operating cash flow in 2003 was \$38.7 million, up from \$9.4 million in 2002. Operating cash flow comprised of:

- cash generated from earnings of \$11.4 million; and
- changes in working capital of \$27.3 million.

Working capital changes are attributed primarily to lower security deposits pledged to payment processors, increased income taxes payable resulting from higher earnings, extended payment of licensee payables, a growing jackpot

accrual associated with the introduction of new jackpot games, and an increased charge back contingency as a result of higher player deposits during the year.

Player deposits as at December 31, 2003 rose significantly to \$9.4 million, up from \$3.8 million in the prior year, which reflects the strength of our licensees' online businesses.

We're seeing continued strength as we move into 2004. We forecast first quarter revenue in the range of \$13.6 to \$14.0 million, with earnings of \$3.1 to \$3.3 million or \$0.23 to \$0.24 per diluted share.

I will now turn the call back to Lewis.

**Lewis Rose:** Thank you, Jim. We're now pleased to open the call to questions.

**Operator:** Thank you. We will now begin the question and answer session. To place yourself into the question queue, please press \*1 on your touch-tone phone. If you are using a speakerphone, please pick up your handset and then press \*1. To withdraw your request, press \*2. Please go ahead if you have any questions.

Your first question comes from David Shore. Please go ahead.

**David Shore:** Good morning. Very good quarter, guys. Lewis, can you talk about what you're seeing, if anything, from the land-based casinos as far as moves they're making in the online world?

**Lewis Rose:** We've seen two particularly noteworthy land-based casinos. One was MGM Mirage, who set up operations in the Isle of Man, and their mandate was to accept wagering only from those jurisdictions where gaming was specifically legal. As a result, they had a number of difficulties in generating sufficient traffic to justify the ongoing operation, and they in turn decided to close down. So MGM has made the effort but decided to withdraw.

The other land-based casino operator was Atlantis, at Paradise Island in the Bahamas, the land-based casino and hotel operator there. While they had a very creative and effective marketing approach, they too have decided to withdraw.

The one other U.S.-based land operator, Harrah's, has set up a subscription-based service for UK residents only. That's very recent and too early to tell. In fact, Harrah's has targeted specifically a demographic of female punters and have stayed away from a royalty revenue share model, but have focused on a subscription model. But as I said, it's too early to tell how they're faring.

**David Shore:** What are you seeing competitively, and specifically as it regards to pricing in the market?

**Lewis Rose:** We continue to see margin pressures as a result of the growing sophistication and the maturing of the industry. As you know, David, there are over 1,800 online gaming sites today, and as the industry matures you'd expect the margin pressure to grow. Having said that, you know that CryptoLogic offers a complete turnkey solution in terms of a wide range of 80 plus casino table and slot games, and electronic payment option that's second to none, and a 24/7 customer support facility in the UK that's multi-lingual. And most importantly though, the size of the pie continues to grow, the market continues to grow, and the expectations are that demand for this year will be in excess of \$6 billion. So we continue to remain cautiously optimistic about our growth potential.

**David Shore:** What are the top five licensees as a percent of revenue?

**Lewis Rose:** The top five licensees as a percent of revenue continues to be in excess of 90%.

**David Shore:** Was there any foreign exchange impact on the results in the quarter?

**Lewis Rose:** Not materially. We have U.S. dollar revenues, we have Canadian dollar expenses, so in essence, our exposure is Canadian dollars. We have Euro revenues as well and Sterling revenues, and the effect of our FX hedging policy really negated any of the U.S. dollar decline during the course of the year.

**David Shore:** G&A was down a little bit in the quarter compared to third and second quarters, any kind of trend going on there or anything specific in the quarter?

**Lewis Rose:** We've paid tremendous attention to our cost base and we've made a conscious effort to reduce operating costs like G&A. We've reduced the variable expenses to the extent that we can. It's not expected to be a continuing downward trend, but it reinforces the vigilance that we have on our operating and G&A costs.

**David Shore:** So we just see it continuing on a percentage basis?

**Lewis Rose:** Yes.

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

**Operator:** Your next question comes from Paul Hill. Please go ahead.

**Paul Hill:** Great quarter. What's your view on the fixed odd betting terminals with the introduction of the new code of conduct in the UK, towards the end of November? It potentially opens up a market for CryptoLogic?

**Lewis Rose:** Paul, there's no question that fixed odds betting terminals in the UK have been a tremendous source of growth, and for those land-based operators already in the business it's been a boon. From our point of view, our focus and experience has been on the Internet. We understand how the economic model works, we have a very enviable list of blue chip customers, and one of the beauties about where we are is that we do see many opportunities. One of the most difficult decisions in business is to remain focused and while we've seen the growth of fixed odds betting terminals, we've decided not to participate in that marketplace but rather to stick to our strengths and our core competencies. Our core business being the provision of software services to a select group of international brand name licensees.

**Paul Hill:** Going forward in 2004, how do you see the mobile market potentially playing out?

**Lewis Rose:** We ought to talk about mobile and interactive TV in the same breath because we've looked at both of those markets as potentially very significant. As far as interactive TV is concerned, there's a graveyard of people before us who've invested significant amounts of money trying to be the first out of the gate. Sky, as you know, in the UK, has 7 million subscribers and has done a fantastic job. Our view in terms of interactive TV is that we're perched on the nearest branch looking interested. Until such time as we understand the economic model and see how our core competencies can add value, we're not prepared to extend and expend significant amounts of money.

As far as wireless is concerned, it's slightly different. We have developed four games for PDA or XDA devices and we are much more able to participate in that market. But equally we're not prepared to participate or to invest significant amounts of money until we are convinced that the economic model makes sense. Today we're in a cash generative business and we don't want to jeopardize that model.

Not to say that we're not exploring, and we're not interested, it's just to say that we're not prepared to invest the money on any significant scale until we can see some surety as to results.

**Paul Hill:** On the Betfair deal, when do you expect the revenue stream to kick in 2004?

**Lewis Rose:** We expect that their poker site will launch in the second quarter. We're optimistic, obviously, about the relationship with Betfair, because the transaction and the relationship are consistent with our focus on large international operators with the brand strength, the database, and the marketing might to build a solid and profitable online business. And in fact, Betfair's person-to-person betting exchange model fits perfectly with the player-to-player online poker model that we offer.

Having said that, it typically takes six to nine months for a site to ramp up to the level of ongoing profitability. So while we expect Betfair to launch in the second quarter, we don't expect them to reach their potential for some time.

**Paul Hill:** With respect to the London Stock Market listing that was done in September. What is the view of raising the profile for CryptoLogic locally in the UK.

**Lewis Rose:** Well, as you know, the listing on the London Stock Exchanges' Main Board in September was an important first step in raising our profile in the gaming-friendly market of the UK. We did not do a financing and as a result we didn't see, nor did we expect to see, any immediate significant volume. Having said that, we have spent time in the UK. We have had two rounds of roadshows to introduce ourselves to institutions and potential shareholders in the UK. We understand that it does take time to develop the capital markets in the UK and to build interest, but we're proceeding and we are seeing very encouraging and promising responses to our story, to our company, to our growth potential. We are in the sweet spot of interactive gaming today, and we believe that the value will be uncovered and unearthed by UK investors.

**Paul Hill:** Okay. Thanks very much.

**Operator:** Your next question comes from Mr. Stevens. Please go ahead.

**Mr. Stevens:** I had a two-part question, first part relates to the numbers and looking forward to next year. You threw off huge amounts of cash this year but a significant portion of that was due to changes in working capital and not sure how much you can count on that for next year. Can you give us a little bit of a sense of capital expenditures for next year?

**Jim Ryan:** Certainly. And I'll answer the second question first. In terms of our capital expenditures for next year, they'll be approximately \$3.2 million. The working capital changes. The major component of the change relates to lower security deposits as one item. We don't expect that trend to continue in 2004. We were fortunate in terms of negotiating some fixed level

arrangements with various payment processors; the industry norm is to pay 5% to 10% of deposit volumes.

Other factors include our jackpot games. We've introduced a number of new jackpot games, specifically our Millionaires Club, which will allow players to win jackpots up to and in excess of \$1 million. We actually set up a sinking fund or a contingency for those wins such that there is not an impact on our earnings, but that of course grows the Company's payables.

In renegotiating various licensee arrangements, we renegotiated the frequency of payment for those licensees and we've extended out payment terms, and that has been a factor too in increasing the Company's liabilities.

**Mr. Stevens:** Okay. And any sense for diluted share growth next year?

**Jim Ryan:** Well, we certainly provided you with our first quarter guidance. The Company has historically provided quarter-by-quarter guidance and we leave it to the analysts to provide direction beyond that point.

**Mr. Stevens:** Okay, fair enough. Just in terms of the competitive landscape, I understand that in terms of online casinos there's a zillion players out there, but in terms of licensing gaming software who is the next biggest competitor and how much smaller are they than you? What size of your market do you control?

**Lewis Rose:** There are probably 100 to 160 software providers, so there's a significant range. There are some very large operators who also provide their own software solutions, like Casino-on-Net, you'd be familiar with that brand name, and Microgaming, both of whom are private companies. Another competitor would be a public company that's listed on the Stockholm Exchange by the name of Boss Media. From our point of view, we focus on providing a range of products to the best names in online gaming. We're the largest publicly traded online software gaming company in the world and we have in our view, the most enviable list of blue chip customers in the industry.

**Mr. Stevens:** I appreciate that. If you were to lose any of those customers, whom would it likely be to, or is there just no way of guessing?

**Lewis Rose:** It would be a range of competitors. In addition to the traditional competitors, we also have some very strong segment-specific competitors. For example in poker, there are some very large online poker operators who only operate in that segment. Similarly in bingo. So there is a range of competitors that we keep our antennas up.

**Mr. Stevens:** Okay. Thank you.

**Operator:** Once again, if there are any questions or comments on the phone lines, please press \*1.

You have a follow-up question from David Shore. Please go ahead.

**David Shore:** Thanks. Lewis, just in regard to the mobile market development; how would you be looking at approaching that market? Who would you be targeting as your customers?

**Lewis Rose:** Our customers would be our existing customers, David. As you know, we've renewed or extended the arrangements with our top seven customers, such that the expiry of the most recent term would be towards the end of 2005. So we have in many ways, achieved some security of contracts with our existing customers, which enables us to turn to them and to have them work with us and the mobile operators to establish relationships. It is quite a complex three, or in some cases, four way relationship in order to get gaming online. Particularly our focus would be in Europe, but our customers would be our existing international brand name blue chip customers.

**David Shore:** What is the headcount at?

**Lewis Rose:** The headcount today is 173.

**David Shore:** Okay. Thanks very much.

**Operator:** Your next question comes from Mathieu Roy.  
Please go ahead.

**Mathieu Roy:** Hi, guys. Congratulations on the quarter.

**Lewis Rose:** Thanks, Mathieu.

**Mathieu Roy:** On your operating cost, the level that we've seen in Q4, is that a level we should be comfortable with going forward, in terms of your increased marketing and product development?

**Lewis Rose:** For 2004, Mathieu, we will be investing further in both our front-end game development and back-end software support, so on an absolute basis the costs will increase; however, the operating costs will be managed within the context of the revenues generated. So our 2004 operating costs are expected to be at a consistent level in terms of percentage of revenue basis compared to the prior years.

**Mathieu Roy:** International clients as a percentage of total revenue: where do you see that in the first quarter?

**Lewis Rose:** We've achieved significant success in diversifying our business. We've increased from 30% of licensees' revenue representing international business a few years ago to 40% last year to 55% in 2003. And what we are aiming for in terms of 2004 is that the international revenue from our licensees is targeted to be 60%.

**Mathieu Roy:** Okay. That's great. Well thank you.

**Operator:** Your next question comes from Reid Jenner. Please go ahead.

**Reid Jenner:** What percentage of revenue do you expect in the first quarter, or what was it in the fourth quarter from the new products? You've indicated 10% for the year, but what was it in the fourth quarter for bingo and poker?

**Lewis Rose:** We've indicated publicly that the number is in excess of 10%. We believe that is sufficient guidance. We'll continue to grow that business because of the rising popularity of poker, which is driving both domestic and international growth, so there's no question that there's growth potential in poker. We feel that is sufficient guidance for our shareholders. We don't want to be too much more specific because we don't provide quarterly breakouts of revenue by product.

**Reid Jenner:** And finally, a question about pending legislation in the U.S. I understand that the Kyl bill has passed through congress and it's now in the Senate for consideration?

**Lewis Rose:** The bill to be passed into law has to go through both the House of Representatives and the Senate. There is a bill that was approved and passed in the House of Representatives in June, after three attempts and much debate. There is a different bill that's being proposed by Senator Kyl that's being moved through the Senate, but has currently stalled. So in order for both the House and Senate bills to make it into law, they both have to be A) approved and then B) reconciled. And there are notable differences between the two bills.

In the House bill, there is no civil or criminal penalty. In other words, there are no enforcement mechanisms, and that bill also provides exemptions for horse and dog racing, casinos, and State lotteries. By comparison, the Senate bill includes civil and criminal penalties, but the exemptions apply only for horse and dog racing. So as a result, these carve-outs are creating significant opposition from powerful industry groups that include the land-based casinos, the Indian tribes,

the State lotteries, and the Christian right. So our expectation is that we will not see a resolution on this matter for some time.

**Reid Jenner:** That's a good clarification. So are you saying that both bills, still have to pass through both Houses?

**Lewis Rose:** The House of Representatives bill has already been passed by the House. The Senate bill is in process and is now going through the Senate. If it gets passed by the Senate, then the two bills have to be reconciled in order for it to be law.

But remember that these attempts have been ongoing for six years, and the proponents of prohibition are still trying to bring this to fruition. On the other hand, what we have seen is a crystallization of support for regulation as opposed to prohibition, similar to the efforts that we have seen in the UK. From CryptoLogic's point of view, obviously our focus is to grow in Europe as a result of the lack of clarity in the United States and so we have now achieved that by growing the revenues of our licensees to over 55%, and we're now at 30% percent of our customers' total revenue comes from the United Kingdom alone.

**Reid Jenner:** And how much in the United States? 40% for 2004?

**Lewis Rose:** 100% of our revenue comes from international sources. 55% of our licensees' revenue comes from international sources.

**Reid Jenner:** Thank you very much for the clarification.

**Lewis Rose:** You're welcome.

**Operator:** Your next question comes from Edward Dawson. Please go ahead.

**Edward Dawson:** Is there a view to either doing something about the cash pile, like increasing the dividend going forward?

**Lewis Rose:** We get asked this question frequently. One of CryptoLogic's strengths is the quality of its balance sheet. It's a very significant factor in attracting new customers, because obviously licensees feel very secure when we have a very strong working capital position. So we get asked the questions, what about a share buyback, what about dividends, what about acquisitions? Well the reality is that 1) we feel that it's appropriate to have a significantly strong balance sheet as a competitive advantage. 2) We are seeing the industry consolidate and we are seeing opportunities in the industry. We're not prepared to make acquisitions that are not accretive or that are too expensive, but we continue to see opportunities and we want to be prepared to

approach those with very strong leverage because when you approach an acquisition candidate with cash in the bank, the negotiation is quite different than if you say you need to have it financed.

Finally, as we said earlier, we've continued to make investments in the business and we've spoken on this call alone about opportunities on mobile, on fixed odds betting, on interactive TV, so there is a range of alternatives and opportunities for us. At this point, the directors have reviewed the dividend payout and in fact just announced this week the dividend would be maintained at \$0.03 per share as a regular quarterly payout.

**Edward Dawson:** Thank you.

**Operator:** Your next question comes from Murray Baker. Please go ahead.

**Murray Baker:** Do you have any projected targets for new licensees going forward?

**Lewis Rose:** Yes, we do. We have in the past said that our goal was four new licensees per annum. We have now revised that on the basis of quality over quantity as we continue to focus on the 'return of effort' principal, and so for 2004 we would be pleased with an additional one or two international brand name licensees. Obviously it doesn't mean we're going to stop there if we achieve that level, but our view is we're going to be much more selective. And the reason is, we believe we can grow with our existing licensees.

For example, not all of our licensees offer poker and we're in the process now of going through that, the process of having our existing licensees take on poker. Littlewoods Gaming is a recent addition to our poker room and that's part of our 'return on effort' focus. We believe that we can generate more business with existing customers that can be more profitable, that is easier to obtain, and much more efficient. So our focus in terms of new licensees is one to two for 2004, but obviously if we achieve that we're not going to stop at that level.

**Murray Baker:** Could you update us maybe on terms of progress or direction in terms of Asian markets or areas where you're seeing growth where you aren't, really don't have a presence now?

**Lewis Rose:** We've been frank in the past with investors about our growth in Asia. While the region offers tremendous growth potential, we've been frank in saying it's much easier said than done. There are challenges both in terms of fragmented legislation by country and restricted payment alternatives. There isn't a singular popular payment form across Asia. For example, there's no widespread use of international credit cards. We do have a Japanese site and we have a Chinese site, in those languages. We have

ensured that the target and the marketing focus of those sites are much more local. We've engaged local expertise to assist us. But our focus in the meantime has been to grow and expand in the UK and Europe. We believe in fishing where the fish are if you will and we know that there's lots of fish in Europe. The Asian alternative is one that we are aware of. We are exploring a number of Asian payment alternatives. We've seen some encouraging traction with the Japanese business. China has been slower to develop. We will continue to target Chinese and Japanese ex-pats, because we believe that with the local languages or the translated languages we can do that.

One of our licensees that offers the Chinese site had it's name translated literally and they've adjusted the translation to mean "May the luck of good fortune come." So we've included the translation into a much more meaningful way. We've got personal testimonials and confirmation of players' views on the website. These are all steps that we've undertaken to improve the local appeal of the Chinese and Japanese language versions.

But we recognize that this is an opportunity that we will grow slowly and potentially has got huge significance. In the meantime, we continue to focus on Europe and the UK.

**Murray Baker:** You mentioned about the political landscape in the U.S. in terms of legislation, do you foresee any impact going forward in the election year in the U.S. or any change that might come about as a change in government?

**Lewis Rose:** Obviously it's a hypothetical question but the reality is that there are much more important issues that U.S. governments have to deal with than online gaming. The proactive stance that the UK government has taken, which is to regulate online gaming, is one that we would applaud and that we fully support in terms of transparency and legislation and regulation. So given our experience in multiple regulatory jurisdictions, we would applaud and support a regulated approach. In terms of predicting the outcome in the United States, we know that there's been six years of attempts, but we can't speculate on the outcome.

**Operator:** There are no further questions on the phone line.

**Lewis Rose:** CryptoLogic posted strong growth rates in 2003, partly as a result of a difficult 2002, which was affected by industry challenges and internal change. While this positive performance demonstrates a fortified core business and re-established forward momentum, we look ahead with cautious optimism.

We are mindful that while online gaming continues to grow rapidly, regulatory uncertainty remains and heightened competition is creating margin pressures. We are and will continue to invest in our business in 2004, which will increase costs and is intended to drive our long-term growth.

We remain focused on the stated strategy of continued diversification of our products and geographic markets to enhance CryptoLogic's global market leadership and build on the results of 2003.

I look forward to sharing our continued success on our next quarterly conference call. Thank you.

**Operator:** Thank you. This concludes today's conference call. Please disconnect your lines and have a great day.