

CryptoLogic Inc.
2004 Fourth Quarter & Year-End Results Conference Call
February 18, 2005

Operator: Good morning and welcome to the CryptoLogic Inc. fourth quarter and year end 2004 financial results conference call for February 18th, 2005. Your host for today will be Lewis Rose. Mr. Rose, please go ahead sir.

Lewis Rose: Hello ladies and gentlemen. Thank you for joining us for CryptoLogic's fourth quarter and year end 2004 conference call. I'm Lewis Rose, President and Chief Executive Officer of CryptoLogic. With me today are Jenifer Cua, our Interim Chief Financial Officer, and Nancy Chan-Palmateer, our Director of Communications.

I'm delighted to welcome new UK shareholders to our call today. We have recently reinforced our strong presence in the UK with the addition of a dozen premier institutional investors in this gaming-friendly market.

2004 was a blue-chip year for CryptoLogic. We advanced our market leadership and gained increasing strength in both the online casino and poker markets. The results were record revenue, excellent earnings and a strong balance sheet.

At \$63.7 million, CryptoLogic's 2004 revenue was up 44% from a year ago. Our earnings picture is equally strong: We delivered a 45% increase in net profits to \$13.7 million.

Our financial strength and consistent cash generation led to a 67% increase in our quarterly dividend to \$0.05 per share per quarter starting with the December 2004 dividend. This was up from \$0.03 a share in 2003.

These excellent results prove that CryptoLogic has a winning hand today, and a strong position for the long term.

CryptoLogic has consistently emphasized three core imperatives:

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

3. Regulatory leadership.

We succeeded in 2004 by sticking to these strategies and remaining disciplined in our execution. Let me speak to how this focus has contributed to our strong performance.

CryptoLogic's global strategy has translated into an **internationally-diversified** business that allows us to maximize opportunities in key markets around the world. More than 60% of our licensees' revenue now comes from international players, up from 55% in 2003 and 40% in 2002.

We anticipated opportunities in the UK and Europe, and set out to be a leader in these major markets. And we've done just that. The UK and continental Europe represent more than 30% and 20% respectively, of overall revenue.

We continued to emphasize "quality over quantity" in our customer base in 2004, working with the best of the best in the global online gaming industry. We are proud that Betfair - the world's largest betting exchange - became the latest top UK gaming brand to participate in the amazing growth of Internet poker - joining William Hill, Littlewoods Gaming, ukbetting, PokerPlex, InterCasino and InterPoker - all using CryptoLogic technology.

While adding new customers makes for exciting news, we also see substantial opportunities to grow organically with our existing customers. We practice a concept, "fish where the fish are", which has proven to be very successful as evidenced by our strong results. Let me give you a couple of examples.

In 2004, we added a new online poker site for The Ritz Club London Online, and launched a new Pound Sterling casino for InterCasino, both existing customers. In addition, just this week, The Ritz Club London Online renewed and extended its multi-year contract with CryptoLogic to continue to exclusively use both our online casino and poker offerings.

Of course, being a market leader also means investing in the **right market-oriented products** and delivering technology that helps our

licensees make more money - and that's the second pillar of CryptoLogic's strategy.

CryptoLogic cemented its position and enjoyed exciting growth in both its online casino business and in the explosive growth of Internet poker.

So now let's talk poker. The mainstream market has come to realize what we did just a couple of years ago. CryptoLogic saw the large untapped market opportunity of online poker, and we leveraged our reputation for innovation and strong brand-name licensees to establish a very significant position in online poker.

This approach has paid off in spades. Today, we power one of the Internet's top five revenue-generating poker sites in a market that has grown to more than \$1.8 billion - and there's no end in sight.

Fees from our online poker software grew to approximately 20% of total 2004 revenue, well ahead of our target of 15% for the year. Revenue from poker has risen by more than 140% over 2003. Traffic at our central poker room has increased to more than 5,300 players online simultaneously.

New versions of CryptoLogic's online poker software delivering multi-table and satellite tournament capabilities - a huge marketing draw for players - has fuelled this growth. These enhancements enabled the success of our first land-based, internationally televised poker tournament - the Caribbean Poker Classic in St. Maarten this past December. 157 entrants from around the globe, including three World Series of Poker champions, battled for a prize pool exceeding US\$750,000.

In addition to investing in our products, we've also invested in our management team. Andy Goetsch has joined CryptoLogic as the new vice-president of Poker Software Development. Andy is not just a seasoned executive, but an accomplished world tournament poker player who is instilling into our mindset, an understanding of the "heart of the online poker player" or "HOP" as he calls it.

The poker market is showing no signs of cooling off. The online game first took flight in the US, which still accounts for about 80% of the world's Internet poker market. It's clear to us that the UK and Europe - our core markets - are the next big growth areas. With a strong base of prestigious

customers in these regions, CryptoLogic has a leading position in the global poker race.

While all eyes are on poker, CryptoLogic has not lost sight of its core business: online casino. Online casino continues to be our largest profit contributor, accounting for 75% of our revenue in 2004.

Our casino revenue was up 30% in 2004 over the previous year. We've benefited from the release of over 30 new casino slot and table games, including the first ever Internet version of the perennial favourite in UK pubs - Fruit Machines - which is a British style slot machine.

Now let me update you on our third priority, **regulatory leadership**.

CryptoLogic remains steadfast in its commitment to a regulated environment for online gaming - for the protection of players and the integrity of our industry.

In the US, little has changed. 2004 marked the fifth congressional term - spanning almost a decade - that efforts to ban online gaming have failed. With a new two-year term now underway, any prohibition legislation must begin anew.

This continued uncertainty underscores the value of CryptoLogic's focus on European markets, such as the UK, which is emerging as the global centre for regulated online gaming. In January, the UK Gambling Bill, which will regulate this industry, advanced from the House of Commons to the House of Lords, where the legislation is due for its second reading next week. The goal is to enact the new law by the Spring of this year, and be fully operational with licenses granted by 2007.

As more governments like the UK recognize that regulating online gaming is in everyone's interest, CryptoLogic will benefit as one of the few providers in the world with gaming software and senior management and directors that have already passed the world's highest regulatory tests.

It's now my pleasure to turn the call over to Jenifer Cua who will address our fourth quarter and full year financial results.

Jenifer Cua: Hello, I am pleased to speak to highlights of our fourth quarter and full year results for 2004. All figures are in US dollars.

Q4 2004 revenue was up 33% to \$17.9 million versus \$13.5 million for the same quarter in 2003. Revenue for fiscal 2004 increased 44% to \$63.7 million versus \$44.2 million in 2003.

While online poker has grown significantly, it is important to note that casino continued to perform well for us. Online casino revenue in the fourth quarter grew by 15% over the same quarter in 2003, and up over 30% year-over-year. New casino games are important growth drivers in this more developed and competitive game area.

For Q4 2004, operating costs were \$11.3 million, compared to \$8.4 million in the same 2003 quarter. For the year, these costs were \$40.0 million, compared to \$27.2 million in 2003.

Higher operating expenses were attributed to the following:

- the release of our Version 6 casino software in the fourth quarter;
- the increased capacity of our poker system to now support 10,000 simultaneous players online;
- an improved back-office offering to assist our licensees with player retention and re-activation abilities;
- additional player verification capabilities; and
- the addition of a new European payment processor.

Also, growing transaction volumes arising from a growing business naturally led to increased processing fees.

These initiatives were also part of our previously announced \$10.0 million investment program, which is above and beyond our usual expenditure.

Approximately 70% or \$7.1 million of our \$10.0 million investment program was invested in 2004. Of the \$7.1 million, we spent \$2.6 million in operating costs, \$2.9 million for purchases of capital assets and \$1.6 million for capitalized software development costs related to the program. The balance will be spent mostly in the first half of 2005.

We also incurred \$2.7 million in additional capital expenditures in the normal course of business. This included updating our existing server network and supporting the increased staffing of our expanding company.

Even with higher expenditures, operating costs as a percentage of revenue remained fairly consistent at 63% compared to 2003. This reflected the initial returns of our investments to drive a growing business.

Turning to our balance sheet strength. At December 31, 2004, we had no debt, and our cash reserves grew to \$86.0 million. Working capital rose to \$62.8 million. Our cash generation enables us to fund our investment initiatives, pay quarterly dividends and implement our growth plan.

Q4 2004 operating cash flow was \$9.0 million, versus \$7.7 million for the same quarter in 2003. In 2004, we generated \$18.9 million from operations compared to \$38.7 million a year ago. This year-over-year decline was due primarily to higher receivables in 2004 resulting from two licensees assuming responsibility for their own e-cash processing. As well, operating cash flow was unusually high in 2003 due to more favourable security deposit arrangements beginning that year and the timing of accounts payable.

As issued earlier in our press release, we forecast first quarter revenue in the range of \$19.0 to \$19.4 million, with earnings of \$4.1 to \$4.3 million or \$0.29 to \$0.30 per diluted share. This guidance assumes 14.3 million shares outstanding on a weighted average and fully diluted basis.

I will now turn the call back to Lewis.

Lewis Rose: Thank you Jenifer. We'd be delighted to take questions at this time.

Operator: Thank you sir. We will now begin the question and answer session. To place yourself into the question queue, please press *1 on your touch-tone phones. If you are using speakerphones please lift your receivers then press *1. Please go ahead if you have any questions. Our first question is from Greg Harris. Please go ahead.

Greg Harris: Could you give us a little more clarity on the tournament in the Caribbean. It does appear that it did lose money, something that is indicative of many of the first tournaments done by some of the others in the space. Who's bearing this type of cost, and could you give us some of your ideas on what the future looks for in tournaments, when we can see them and if there will be any sponsorship by either WagerLogic or WagerLogic licensees like the World Series of Poker or European Poker Tour?

Lewis Rose: Hi Greg. That's a very important question because as you correctly pointed out the St. Maarten Caribbean Poker Classic Tournament was our first land-based event. In our view, it was a substantial success. There were 157 entrants; the prize pool was over \$750,000. It was recently televised on Rogers Sportsnet in Canada. The intention is for the show to be televised in the UK as well.

In addition to that, we had three World Series of Poker champions involved at the event. Chris Moneymaker, Rob Varkonyi and Russ Hamilton. And interestingly, all three were knocked out quite early on. We invited them to participate in a \$50,000 freeze out, a single table tournament amongst them and some European poker professionals that had also entered to create our own celebrity tournament. That was televised and will be aired as well in the next couple of months.

So from our point of view, it was an awareness marketing opportunity for our licensees to market to their players. It was also, from the licensees' point of view, an opportunity to expand the awareness of the poker room to television.

In terms of moving forward, we intend that the Caribbean Poker Classic Tournament become an annual event. It's obviously something that we believe we can build on and successfully. As far as the costs are concerned, there was some costs because, as you correctly point out, it is the inaugural tournament and in our experience all of the first time tournaments that we've seen have actually cost people money. We believe that the tournament going forward in 2005 would not have the same cost impact on the company and the licensees as 2004.

Moving to your question about the World Series of Poker strategy, our licensees will be doing tournaments which allow their players to qualify for the World Series of Poker. The World Series of Poker is a huge draw for online and land-based players. It is the mecca of online and land-based poker play. The details of the strategy are being finalized and are slowly starting to come out on our licensees' sites.

Greg Harris: That's great. It looks like the quarter experienced quite a good amount of growth in the casino space. Can you just give us some colour on whether that was being experienced across your five largest licensees? Or was it more concentrated on a few? Can you give us some ideas on what it's attributed to as you are now focus on player retention.

Lewis Rose: It was a result of a deliberate policy we recognized earlier in 2004 that the CryptoLogic game suite was underdeveloped in slots. So we launched a range of brand new types of slots in 2004 including themes like football and Asian slots, new Nine Line slots. And then, specifically for our UK licensees who are so important to us, we launched for the first time ever on the Internet, Fruit Machines. Anybody who's been to a pub in the UK would be familiar with the Fruit Machine, although its not common at all in North America. And so the Fruit Machines have turned out to be a very successful acquisition tool to acquire new players.

In terms of the retention of existing players and the re-activation of lapsed players, we've been working hard with our licensees to create improved data mining tools and capabilities to ensure that we continue to grow the revenue per player. But the predominant increase was as a result of the strategic decision to launch a range of new slot machines, which were part of the 30 new games that we launched in 2004.

Operator: Thank you. Our next question is from David Shore. Please go ahead.

David Shore: The tax rate came in a little lower in the fourth quarter than what we thought it was going to be, have you got thoughts for '05?

Lewis Rose: We don't anticipate that the tax rate would be significantly different. We've said that it is 15% to 17% and we anticipate that barring any unforeseen circumstances, the rate will remain in that range.

David Shore: Where does the head count stand?

Lewis Rose: Head count now is just over 300 people. The majority are in software development and marketing. We're investing in our poker business substantially so a large portion of the growth in staff is in the poker area. We prefer to think of the term as manpower and woman power rather than head count though David. That's really our most important asset.

David Shore: With \$86.0 million net cash, what are your thoughts, Lewis, on acquisitions?

Lewis Rose: It's a conversation that we have every quarter at the board meeting. And there's no question that our strong cash position is a competitive advantage in developing our new business in developing industries like online gaming. It assures our customers that we're financially sound and we are going to be in this business and in this industry for a long time. We look at opportunities, both in terms of investing in our core business and acquisition opportunities. We've looked at a number of acquisition opportunities both small, mid-sized and large and we'll continue to do so.

Our criteria for acquisitions is that they assist us in growing and strengthening our core business. They accelerate growth in new technologies, new channels or emerging game areas. They assist in geographic expansion. They are complementary to our strategy and would be synergistic both in terms of value and accretive to earnings. So we have specific criteria for acquisition opportunities. Having a strong cash reserve is a major asset as the industry will experience and has started to experience consolidation. And also will substantially enhance our leverage position as we approach an acquisition opportunity.

So we're looking, we're active, there's nothing imminent. There's nothing that we are close to reporting. In the meantime, we have embarked on a substantial investment program because we believe that the returns that we can generate from our existing core business are also substantial. So we're not focusing on acquisitions at the expense of investing in our core business. We are doing both.

David Shore: Can you just give an update on bingo?

Lewis Rose: Bingo is a solid business. It has shown substantial resilience. It's not a growth business like poker. But it is important in terms of complementing our casino and poker offering. It enables us to have a well-rounded complete offering to our customers. The 2004 bingo revenue did grow more than 30% compared to 2003, yet remains consistent at approximately 2% of total revenue. So it's not a huge contributor, but it is important to round out our product offering and to ensure that we are in the business of bingo.

David Shore: Okay, thanks very much.

Operator: Thank you. Our next question is from Joseph Smith. Please go ahead.

Joseph Smith: With poker becoming a more important part of your revenue, could you give us a more precise breakdown of the poker, casino and other revenues? Is there anything to preclude CryptoLogic to open its own subsidiary poker room, possibly focusing on markets that are not being tapped extensively, but existing licensees?

Lewis Rose: Let me respond to the first question which was what proportion of our business is poker, and what proportion is the rest of our business. Poker in the fourth quarter represented over 20% of our total revenues and approximately 20% for the year.

In terms of our own room, the way we operate is we have established a central poker room, because the key factor for success in poker, in our view, is critical mass or liquidity. We have to be able to offer players the opportunity to play at a table at the stake of their desire, in a currency of their choosing, at the speed that they would prefer, 24 hours a day. And by

having over 5,000 players playing simultaneously from around the world, we are able to do just that. So that's why we offer a central room as opposed to individual rooms for each of our licensees. Each of the licensees benefit from having the critical mass in a joint room.

Joseph Smith: I quite understand that, but why couldn't your statement simply show so much poker revenue, so much casino revenues, and so much bingo revenues? Your statements are always, they're over this percent, over this percent, that could mean anything?

Lewis Rose: We give sufficient information, in our view, which makes the poker revenue number material and useful. It provides as much or more disclosure than any other comparable company. So we believe that we provide full and frank disclosure and it's sufficient for shareholders to gain a knowledgeable understanding of our company and to make an investment decision that's sound based on the information provided.

Operator: Our next question is from Carl Franklin. Please go ahead.

Carl Franklin: To what extent do you think that poker will keep growing in 2005? If you're looking on a quarter-by-quarter basis, what kind of percentage growth would you be looking for?

Lewis Rose: Our hope is that the poker market continues to grow at the pace that we've seen. We do believe that the poker market has potential to grow substantially. The industry experts are predicting 100% growth in the year. We believe as far as the UK and Europe is concerned that those markets are still 12 or 18 months behind the US. And so in that respect, we expect to see substantial growth. But the industry experts are predicting 100% growth.

Carl Franklin: And how much investment do you need to sustain a competitive advantage in the poker market?

Lewis Rose: We've indicated that we have embarked on an investment program of \$10.0 million over and above our regular capital spending. Included in that is a substantial component dedicated to the

growth of poker. We believe that we have to be able to service players in excess of the numbers that we have today. For example, we can accommodate up to 10,000 simultaneous players today. We're at over 5,000, which is still insufficient in terms of the opportunity going forward. We are slowly starting to see the early returns of the investment program. But included in the \$10.0 million is an expectation that we will be able to accommodate the growth in poker at least for 2005.

Carl Franklin: Can you give us any guidance on what will happen to margins with renewals coming up? Could you talk to the decision of Sportech taking on Boss?

Lewis Rose: On the first question in terms of renewals we've just announced this week the renewal of The Ritz Club London Online contract, moving forward on an exclusive basis. The terms were substantially the same, there wasn't a material change in the terms. The other contracts will not have renewal clauses until 2006. The top seven have been signed up from 2006 through 2008. In terms of the Sportech. Sportech, as you know, announced that Bet Direct which is a secondary brand for the Sportech company will be launching an online casino and poker room. From our point of view, we have an exclusive contract with Sportech on the Littlewoods' brand. We had decided that together with Littlewoods, that from their point of view, it would be best if they go ahead and do the Bet Direct casino with someone else.

From our point of view, we focus very much on the concept of "ROE", "Return On Effort". Our focus in 2004, and will continue to be in 2005, will be to focus on those brands where we believe we can get the highest return. Littlewoods is a very successful substantial land-based brand with lots of awareness in the UK. And our focus is very much on the Littlewoods brand, it's been around for 80 years, everybody knows the Littlewoods brand and we don't believe that the Bet Direct brand has that same growth opportunity. From a customer point of view, we have to be very respectful of Sportech. From Sportech's point of view, they would like to proceed with a Bet Direct brand and have chosen to do so.

Operator: Thank you. Our next question is from James Stevens. Please go ahead.

James Stevens: Can you give us a sense for capital expenditures for 2005? I know that it sounds like your normalized capex is about \$3.0 million and you've got an additional \$3.0 million left over from this larger project. I'm assuming around \$6.0 million but perhaps you can confirm that and what you think it might be going forward beyond that, will we return to the normalized \$3.0 million level for 2006 and beyond if you can predict that far? And also an idea for D&A?

Can you give us a sense for what you think the diluted share count might be at the end of '05? And connected to that I understand your reasoning about keeping all the cash in the kitty for opportunities. Having said that, why not just try to at least offset the dilution in the share account? It seems diluted shares continue to grow every year and why not at least try to offset some of that?

Lewis Rose: You ask what our capital expenditures are expected to be in 2005. We've announced a program of approximately \$10.0 million, we spent approximately \$7.0 million so its approximately \$3.0 million left. Some of that is capital expenditures, some of it operating costs. In addition to that is the balance of the investment program in 2005 we have an ongoing capital expenditures of approximately \$3.0 million which will be invested in 2005.

The second question was about the number of fully diluted shares and that will be 14.3 million shares, and the third question was on the cash usage. What I'd indicated earlier was that we have very lively board meeting debates on the appropriate use of the cash. And there's several options. The first is to increase the regular dividend, the second is to pay out a special dividend, the third is as you indicated potentially a stock buyback, to ensure that there's no dilution from the issuance of options. The fourth is investment in our existing business and the fifth would be acquisition opportunities.

As far as the regular dividend is concerned our view is that the regular dividend ought to be paid out of the cash generated on an annualized basis. We look at that as our indicator, our barometer, and we've just recently announced the increase of our regular quarterly dividend to US\$0.05 a share or US\$0.20 per annum.

The second opportunity is a special dividend. We have considered this substantially in the past and our view is that it doesn't really do a lot for the future growth and health of the business. Once the cash has left the company, you've got a weakened balance sheet and you've got happy shareholders for a day or two. But really it doesn't do anything for the company longer term.

The third option, which was the share buyback, is something that the company has embarked on twice over the last few years for a total of about over 2 million shares. In hindsight, what it did was reduce the number of outstanding shares. And one of the criticisms that we get from institutions today is the lack of liquidity or the lack of the size of the company to create sizeable positions as we move towards blue chip institutional shareholders.

We believe that there's tremendous opportunity for growth in the business going forward. There are many smarter men than me and us who have under leveraged balance sheets. I can point to Warren Buffet and Bill Gates in the United States. Warren Buffet has said many times that investing is like an endless baseball game. You wait for the right pitch before you swing. And we will do that in terms of an acquisition opportunity, we will wait for the right pitch before we embark on an acquisition opportunity of any substantial consequence. I outlined earlier some of our acquisition criteria.

In terms of the opportunity though for a share buyback which was your specific question, I do repeat that the size of the float is an important element of our consideration. But it is an active consideration and it is an active debate. Investing in our core business as you can see from the results announced today resulted in us achieving record revenues. So we believe that investing in the business we know and understand is the right course of action.

James Stevens: Thank you. I appreciate that. I want to make sure I understand the answer to the specific questions regarding capital expenditure. It looks like it is about \$6.0 million for '05, and is that something that we should assume going forward is going to go back to the \$3.0 million level barring any unforeseen larger projects? And on the diluted shares would the 14.3 million be end of 2005 level or is that what it was going to be on the first quarter?

Lewis Rose: The \$3.0 million is the normalized capital expenditure on an ongoing basis. Approximately \$2.0 of the \$3.0 million left in the investment program would be capital. And yes, you could say that it would be a normalized expectation going forward. One of the questions earlier was what about poker. What if poker continues to grow substantially at the pace that we've seen, we may indeed invest further in poker. But at this point, the numbers you have are correct.

James Stevens: And the diluted shares, was it quarter end or year-end?

Jenifer Cua: Quarter end. That's for our first quarter.

James Stevens: Can you take a guess for year-end?

Lewis Rose: I think it's very difficult to anticipate what that number is going to be, and as well as the share price.

James Stevens: I appreciate it, thank you.

Operator: Okay, our next question is from Robert Winslow. Please go ahead.

Robert Winslow: During Q4, I believe it was announced mid November, ukbetting plc chose Chartwell to provide their browser casino games. Could you please provide your perspective on ukbetting's decision to go with Chartwell for that product?

Lewis Rose: We're very focused in our allocation of development resources. We believe we've got scarce development resources and we want to allocate them to the projects that would generate the highest return. The intention was for ukbetting to launch in Europe with a smaller brand and with smaller opportunities in our view. So similarly we discussed with them and released them from the exclusivity to allow them to participate in a non-downloadable product for the European market. It's called Gold Bet.

So it's not the ukbetting brand. The focus from CryptoLogic's point of view is that we believe that stickiness to your customers and higher revenue per player comes from downloadable games and downloadable versions. So that's been our focus. What we have done with our suite of over 100 games is focused on downloadable products as opposed to the non-downloadable version for secondary brands in smaller European markets, which also require integration and foreign currency, foreign language translation and so on.

So we've been very selective in focusing on those products, those services, those games, those currencies and languages where we believe we'll get the highest return.

Robert Winslow: I'm hearing a lot of talk in the industry about the idea of convergence whereby maybe 12, 18, 24 months from now there may not be such a thing as a pure play software vendor to the e-gaming space, that there might be only half a dozen or so operators who produce their own software. I wondered what your thoughts are on that sort of thinking, and if you agree what kind of timeline that we could see?

Lewis Rose: There's been talk of convergence for some years now. And the talk of convergence revolves more around wireless and interactive TV, in our view, than an operator becoming vertically integrated. So let me address those two questions separately.

As far as the wireless and interactive TV is concerned we've often referred to it as a very romantic opportunity with a huge pot at the end of the rainbow. But in our experience, each time we get closer to the pot, it seems to be that it moves further away. On the Internet business, we understand the royalty revenue arrangements. We understand the cash flow generation, and we understand who the participants are that actually generate the finances and make the money. So we understand the economic model.

In the case of wireless and interactive TV, a number of participants would be involved. For example, there would be the distributor, the software provider, the operator, the applications integrator, and there could even be the manufacturer who would want a royalty as well. So there are generally five and often six different companies and entities who want a portion of

the profit. In our view that at this point in time, the economic model is not sufficient to sustain our investment or our interest. There's a graveyard of people before us who've invested in both interactive TV and wireless.

Having said that, we have developed four games for wireless. We are, as we said many times, perched on the nearest branch looking interested, so we do continue to maintain an understanding of the marketplace. If we were betting people, we would probably say that our interest in wireless would precede our interest in interactive TV. Having said that, we remain very much focused on the "return on effort" concept and, in our view, the biggest return right now is with the Internet.

The second part of your question was on vertical integration. We do have over 300 employees, we had 291 at the year-end. So if you were an operator trying to compete with us, you'd have to have 180 software engineers, PhD's, mathematicians, web servers experts, system architects, etcetera. We've got ten years of experience; we've processed over \$25 billion in transactions. We understand this industry exceptionally well.

If you were an operator, you'd have to take on that range of overhead, which would be very difficult to do. And it's a culmination of this expertise that's allowed us to generate over 30 new games in 2004 and expand the casino, poker and bingo product offering. So it's a very difficult thing to do. Having said that, we believe that this business, both online casino and online poker have tremendous growth opportunities. There's a lot of growth from our existing customers and from existing business. We will continue to be actively involved in looking at wireless and interactive TV. And if it happens to develop later on, we will be involved. But right now, we believe it's premature.

Robert Winslow: Thank you.

Operator: Okay, our next question is from Murray Baker. Please go ahead.

Murray Baker: Could you give us an update on your projection of any new licensees? I know you're focusing on the top-tier type of licensee. Do you have any projections or targets for this year in terms of

bringing on board new licensees? And secondly, could you also address any opportunities you see in new gaming areas such as sports betting?

Lewis Rose: The new licensee question is one that we look at all the time. From our point of view, we have the crème de le crème of online gaming. We've said as a strategic objective that we'd be pleased to sign one or two new large international brand name licensees per annum. We believe that there's still substantial returns and growth opportunity from our existing business and that's where our focus is.

We continue to look for substantial large customers. We don't have plans to add numerous smaller licensees, but rather those that can make a meaningful difference to our revenue and earnings base.

On the question of sports betting, we have said very clearly that our focus is on online casino, online poker and bingo. There is more uncertainty about the status of sports betting in the United States pending clarification of that situation. We do not do any sports betting at all.

Murray Baker: Thank you.

Operator: Thank you. Our next question is from Mathieu Roy; please go ahead.

Mathieu Roy: Hi guys, congratulations on the quarter. I know you have talked about acquisitions, but do you see more opportunities becoming available or do you think the opportunities are diminished because prices have gone up?

Lewis Rose: You are probably referring to the acquisition of Paradise Poker by Sportingbet plc, which was a very high profile and very substantial acquisition in the UK. And in our view, it opened for the first time debt instruments in capital markets for this type of business. Now the acquisition reinforces the growth prospects for poker and the importance of critical mass. It also opens opportunities for further acquisitions in this area.

Our understanding is that the top ten poker rooms today account for over 90% of the industry. And that in three or four years time, we expect that it

will be substantially less. May be even a half a dozen or less. So there will be continued consolidation because of the importance of critical mass in poker.

We continue to look at potential acquisitions and, as I said earlier, the criteria would be that it has to strengthen our core business. They have to accelerate growth in new technologies, new channels or emerging game areas and have to expand our geographic territory, be complementary to our strategy, and be synergistic in value and accretive to earnings. So those are very important criteria. We are seeing growth in activity. We are continuing to look, but as I said earlier, there's nothing that is imminent.

Mathieu Roy: Will you be seeing more or less opportunities then you've seen over maybe six months ago?

Lewis Rose: Clearly, there are more today. If you look at the casino side, Mathieu, you'll see that in any industry that has been around for ten years you will see a consolidation. The industry statistics for poker are quite public and relevant and easily available. The industry statistics for casino aren't quite as available because there are many private companies.

About a year and a half ago, there was an industry study that showed that there were about 1,800 online gaming sites. In our view, if that industry study were repeated today, the number would be closer to between 1,200 and 1,500 online gaming sites excluding the poker because we believe that there's been a contraction in online casinos.

So there's a contraction and a consolidation at the same time because of the maturation of the casino industry. In poker, it's a different story because the growth is still substantial. But the importance of critical mass will come to pass over the next three or four years as we see the larger rooms consolidate.

Mathieu Roy: Okay great. In terms of targets in early '04 you mentioned that poker would target 15% of your total revenues and you achieved about 20%. Would you have a target for '05? And in terms of international revenues, what would have been the number for Q4 in terms of your total revenues?

Lewis Rose: On the international revenues, we've said the company has now achieved revenue from licensees that exceed 60%. And that's obviously up from last year and from the year before quite substantially. As far as poker is concerned, in 2005 we're obviously going to build on our success in 2004. For 2004, we set a target of 15% of revenue and we achieved 20%. In 2005, our target will be in excess of 25% of revenue.

Mathieu Roy: For the international revenues, you mentioned it was 60% for the year, but would it have been the same number for Q4 as well? I believe it was a lower number at the end of the year?

Lewis Rose: It was a similar number for the quarter as for the year.

Mathieu Roy: You mentioned that the \$10.0 million investment you made primarily to build up your poker capacity would be enough to accommodate growth for '05. Do you feel that further investments will be necessary beyond '05?

Lewis Rose: We're not prepared to make that judgement at this time. We're in a business, Mathieu that operates at Internet speed and, at this point, we feel that the investment program for '04 and '05 is sufficient to meet our needs. If poker continues to grow at this rate and we believe that we're going to need further substantive investments, we'll make the decision at the time and announce it. At this point, we believe that the \$10.0 million investment over and above our regular capital expenditure program is sufficient.

Operator: Thank you. Our next question is from Doug Krotzer. Please go ahead.

Doug Krotzer: How much of your revenue came from the sale of programs and how much came from royalties under continuing licenses. Could you clarify that please?

Lewis Rose: The bulk of our business is from royalty payments. The revenue stream that we have comes from two sources. It comes from a customization fee when we add a new licensee; it comes from the provision of various services; and from related non-royalty revenues. That represented less than 5% of our revenue in 2004. So over 95% of our business in 2004 was derived from the royalty business or royalty revenues, from the provision of software services, poker, casino and bingo in 2004.

Joseph Smith: Is there anything to preclude CryptoLogic to set up its own poker room possibly through a subsidiary focusing on areas, geographic areas that are not being addressed by existing licensees?

Lewis Rose: We don't have any plans at this time to do so, Joseph. Our focus is to grow the central poker room to provide the best services, tournaments, marketing opportunities and critical mass for our customers who are our primary licensees in multiple currencies, 24 hours a day.

Operator: Thank you. Our next question is from Charles Cocke. Please go ahead.

Charles Cocke: After this current investment program is over how many poker players could CryptoLogic handle simultaneously?

Lewis Rose: At this point, we can accommodate 10,000 simultaneous players.

Charles Cocke: Congrats on renewing The Ritz Club contract. How is pricing with clients compared to a year or two years ago? What sort of pressures are you facing?

Lewis Rose: Well thank you for the congratulations. We very much value our relationships with The Ritz Club. It is a very prestigious brand name company and group of people. In terms of the question about margins and the renewal business, CryptoLogic is the granddaddy of the industry and we remain an industry leader and pioneer and as such we believe that our customers value our innovation, the research and development and the public company status, the

transparency and regulatory practices. As such, we believe that the pressure on rates has reached a point where we are comfortable that renewals would not be materially different from our existing contractual obligations today.

Charles Cocke: Great, that's helpful. In the capital expenditure spending program that has been underway, I noticed that some part of the software development is capitalized and some part is expensed as R&D. How do you make that decision for which parts go where?

Lewis Rose: There are very specific rules that are dictated by generally accepted accounting principles or GAAP. And so we follow the GAAP principles to ensure that everything we do is in compliance with the appropriate accounting principles. There are only certain software development costs related to the investment program that is required or appropriate to be capitalized.

Charles Cocke: Earlier you were talking about the share buyback program that given the choice between buying back shares, which you know at prices of a couple of months ago probably would have created per share value versus not buying back and keeping liquidity. It seems to me that choosing liquidity over value creation is trying to benefit potential owners of shares versus the benefit to current owners or shareholders. I was just trying to figure out why you value liquidity so heavily?

Lewis Rose: The recent addition of substantial blue-chip institutional investors in the UK, which has not only broadened our investor base in the UK but provided a renewed interest and activity in the UK has been substantial in the growth and development of the opportunities for CryptoLogic going forward. So, I would say that in fact we've increased shareholder value substantially by attracting the quality of blue-chip institutional investors in the UK that we would not otherwise have been able to do so.

Operator: Our next question is from Murray Baker. Please go ahead.

Murray Baker: You mentioned the growth opportunities in places like Europe. I wondered if you could give us some assessment at

this time of the Asian market in terms of both growth opportunities and also how you see that playing out over the next few years?

Lewis Rose: Asia offers tremendous growth potential, but in fact it's actually just that, it's potential. While we've seen huge gaming in Asia, it's not been of the type that we're involved. It's been cell phone games. It's been skill-based games and it's been subscription-based services. The challenges in Asia have to be analyzed on a country-by-country basis. There's both fragmented legislation and restricted payment opportunities. For example, we have seen some encouraging traction in Japan, but China is very slow to develop given the absence of the ability for the players to deposit into the payment mechanisms that you and I take for granted because there's no international credit card usage that is in circulation the way it is in North America.

So while Asia appears to be substantial market, both the legislation and the payment mechanisms have not yet been developed to allow the opportunity for online gaming in Asia to equal the interest.

Our focus has been on areas where we can grow, and that is the UK and expanding our reach into Europe. And so we've shown the percentages of international revenue growing to 60% of our licensees business, of which 30% comes from the UK, 20% from Europe, those are substantial numbers. We continue to focus on those areas and geographic regions where we believe online gaming will be regulated and have sophisticated and advanced and available payment mechanisms.

Murray Baker: Thank you.

Operator: Our next question is from Chad Zwayer. Please go ahead.

Chad Zwayer: Jenifer, Nancy, Lewis, congratulations, another great quarter. I was wondering, Lewis, if you could shed some light on the current WTO case involving Antigua and the United States? I believe the decision for appeal from the US has to be made relatively shortly. My question is if the US loses its appeal, how do you feel that that affects CryptoLogic as a company or your licensees as a whole or does it affect them at all?

Lewis Rose: Chad, if the US loses its appeal and the WTO ruling is upheld the question that I suspect is on everybody's mind, how is the US going to react? Is the US going to adhere to the ruling? Are they going to recognize the ruling and what's the consequence going to be?

Obviously the effect of a positive ruling would be a sign supporting free open market for Internet gaming and international cooperation worldwide and you know it would be fantastic for the Internet gaming if indeed it's adopted and adhered to by the US.

I don't know what the outcome is going to be. You would be as familiar as anybody in this business. But it does highlight the US' restrictive stance towards online gaming in contrast to other governments like the UK where the world is moving to regulate. And so it doesn't change our focus. Our focus is very much on growing the business in Europe and the UK. And if the US opens up, obviously it's a tremendous glass ceiling that's going to be removed for Internet gamers around the world. I'm not hopeful though that a positive WTO ruling will result in all of the barriers coming down in the US. But clearly it would be a very positive sign.

Chad Zwayer: I've seen some of these cruise ships that are sponsored by say XYZ poker site. Do you know if CryptoLogic has any plans to do such a promotion or sponsorship or any of their licensees?

Lewis Rose: Chad, we're considering a range of promotional and sponsorship items. Remember from CryptoLogic's point of view, we operate a central poker room. So while it's important to investors and institutional shareholders that we promote the name CryptoLogic. To a player it's more important that we promote the brand name of our various licensees, because the player will be playing through a William Hill site or an InterCasino site or an Omni site or a SunPoker site as opposed to a CryptoLogic or WagerLogic site. So it's equally important to promote the name of the individual licensees.

Having said that, we are obviously looking at a range of opportunities and having the expertise of Andy Goetsch on board now with his vast knowledge and experience in online gaming. We are going to be looking at a range of opportunities and options that we hadn't done before. And

coupled with the new tournament software, we are in a position now to be much more aggressive and much more flexible in chasing down these opportunities in addition to the World Series of Poker strategy that we'll be coming out with shortly.

Chad Zwayer: Can you give us any insight on your next version of the software? I guess it would be called Version 6, the new gaming platform. I assume that's still in the hopper and is 2005 looking like a calendar year that that will be launched?

Lewis Rose: Version 6 has actually been launched. We're now working on our Version 7, Chad, which will likely be launched in the summer of 2005 with a range of even more new and exciting games.

Chad Zwayer: Thank you.

Operator: Our final question is from Jean Francois Gagnon. Please go ahead.

Jean Francois Gagnon: I was wondering with the wireless market moving to smart phone, what are you doing in that field?

Lewis Rose: As we said earlier, we believe that wireless devices are very romantic and attractive and sexy vehicle for gaming. At this point, we don't believe that the economic model can support our interest. Our focus is very much on the Internet and we understand the way the economic model works on the Internet. We continue to look at the wireless market. We're aware of it. We've developed four of our own games for wireless. But at this point, we don't have plans to enter the marketplace. That could change. We wouldn't be doing the integration ourselves. We continue to have discussions with application integrators. We're very focused on our concept of "ROE", "return on effort", and the "return on effort" today is very much in the Internet space.

Jean Francois Gagnon: Perfect.

Operator: Thank you sir. There are no further questions.

Lewis Rose: CryptoLogic's financial performance in 2004 clearly indicates that our disciplined and focused strategy works. We are enjoying great success and growth in both Internet poker and casino. However, this does not mean that CryptoLogic will rest on its laurels.

As we've previously discussed, we are investing in our business to enhance the player experience, help our licensees drive increasing profitability - and advance our long term competitive position. The best time to invest is when you don't have to. Thanks to our strong performance and financial strength, we can plan and position the company well for the future. We are already seeing the early returns.

By delivering on CryptoLogic's stated strategy and investment plans, we will continue to offer exciting innovation. We will continue to drive growth with selective blue-chip brand name licensees. We will continue to focus on the major segments of online poker and casino gaming. This is all aimed at delivering blue-chip returns to our shareholders, and reaffirming our global leadership as the blue chip e-gaming software company.

I look forward to updating you on our progress at the next quarterly conference call. Thank you all.