

CryptoLogic Inc.
2005 Third Quarter Results Conference Call
November 3, 2005

Operator: Good morning ladies and gentlemen. Welcome to the CryptoLogic Third Quarter 2005 Financial 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: Welcome, ladies and gentlemen to CryptoLogic's Third Quarter 2005 Conference Call. I'm Lewis Rose, President and Chief Executive of CryptoLogic. With me today are Stephen Taylor, our recently appointed Chief Financial Officer, and Nancy Chan-Palmateer, our Director of Communications. I'd like to welcome Steve to his first analyst call with our company.

I'm pleased to report that CryptoLogic delivered terrific results in the third quarter. In what is traditionally the slowest summer season for Internet gaming, CryptoLogic achieved record top-line and near record bottom-line results. This performance underscores CryptoLogic's consistent earning's power, financial strength, stability and the success of our focused strategy.

Our revenue in the third quarter grew 35% to a record \$21.0 million. Earnings were excellent, and at \$5.1 million, or up 80% were close to an all-time high.

Our consistent earnings and strong balance sheet have put us in the enviable position of having the flexibility to buy back shares, pay a regular quarterly dividend, invest in our business, and to actively continue to seek other potential opportunities to advance our growth.

Today, I'll update you on the strategy behind this strong performance. I'll address where our business is today - and where we're going forward. Finally, I'd like to explain how CryptoLogic differentiates itself within the Internet gaming sector.

I can sum up our approach in four simple words: **Diversification. Discipline. Consistency. And Innovation.** Let me explain.

Diversification is key to capitalizing on the major markets for Internet gaming.

First, there's geographic diversification. CryptoLogic has established a very strong presence in key Internet gaming markets around the globe. Revenue generated from our licensees' international players accounted for more than 65% of total Q3 revenue - continuing a steady ascent from just 30% in 2001. The UK and Continental Europe continue to drive this growth, accounting for more than 60% of overall Q3 revenue.

Equally important is diversification of product and innovative games. With our genesis and strength in online casino, we were convinced that Internet poker was going to be big - we didn't quite realize how big or how fast Internet poker would grow. Indeed, CryptoLogic is enjoying record revenue and outstanding growth from online poker. However, we have never lost sight of the Internet casino business - the core of our company.

And that's why we continue to invest significantly in developing innovative new casino games that players love to play - we have launched more than 50 new casino games since 2004.

Some of these have been exciting "firsts" for Internet gaming - with CryptoLogic as the exclusive developer. Our latest group of seven features games based on legendary Marvel superheroes like the Hulk, Daredevil, Punisher, Blade and the X-Men. We also became the first to produce an Internet slot version of Bejeweled. This widely successful gem-matching game is one of the most popular games on Yahoo, AOL and MSN. And now you can play Bejeweled - for real money - courtesy of CryptoLogic on the Internet.

We received our first game patent in the UK for one of our own innovations, Millionaires Club™, a hugely popular progressive Internet slot that has made a millionaire of one lucky player this year already. And in fact, Millionaires Club™ is again now ready for someone to win the current jackpot, which exceeds \$1.3 million. In addition to the UK patent, patent for this progressive jackpot game and its distinctive three-wheel bonus concept is pending in other major markets for use in both online and land-based gaming.

Our expanding casino offering has garnered top ratings both within the industry and with players, both for our company and for our licensee customers. For example, Allonlineslots.com has rated Millionaires Club™, the #1, online slots game. Customer recognitions have included the "top rated online casino" awards

by both Gambling Online and Casino Player magazines and the “top online casino for slots” by Strictly Slots magazine.

Not only have our newest casino games gained immediate popularity with players, but they’re already contributing meaningful revenue. By continuing to invest in innovative, diverse products, games and features, CryptoLogic is helping its customers attract new players, reactivate lapsed players and develop a loyal player base.

The result: in Q3 our Internet casino revenue grew 12% over last year, and up 8% sequentially - excellent growth in this more developed segment of the industry.

Now, let’s talk poker. CryptoLogic’s investment in its poker infrastructure and software continues to pay off in spades. Our wide range of games, stakes and levels gives players the games they want, when they want, at the speed they want, and in the currency they want.

And right now our licensees are looking forward to their very own live, land-based, “face to face” tournament - the 2nd Annual Caribbean Poker Classic which will take place from November 25th to December 4th in sunny, beautiful St. Kitts. This estimated \$2 million live Caribbean tournament is drawing some of the world’s top online and land-based poker players, including World Series of Poker champions like Robert Varkonyi (2002 WSOP champion), Kathy Liebert (2004 WSOP Shootout Champion), Jennifer Tilly and Willie Tann.

By offering creative games and exciting tournament options, CryptoLogic software is helping drive players to our licensees’ shared poker room - with very positive results, attracting more than 7,500 simultaneous players - making it one of the largest, poker revenue generating sites on the Internet. For CryptoLogic, this meant Internet poker fees increasing 89% over the corresponding Q3 2004.

The first key is to have a diversified business. The second is to have **discipline** to develop a smart strategy - and then the consistency to stick to it.

Three years ago, we outlined a clear strategy guided by three priorities: A geographically diversified business; the development of market-oriented products; and our steadfast commitment to regulatory leadership.

As with any fast-evolving industry, Internet gaming has seen its share of ups and downs ... and yet CryptoLogic has been consistent in delivering steady growth and profitability. Our success is due to the disciplined execution of our strategic priorities, according to our guiding principal based on “ROE” or return on effort.

Recently, we announced that Betfair, one of our poker licensees, is moving its poker software in-house. This decision is part of Betfair’s long term plans to be self-sufficient and own the technology of its core products.

Betfair will continue to use our poker software exclusively until June of 2006, and may well extend up until January of 2007. Regardless of when they leave, we will receive fees from Betfair such that our annual results for 2006 should not be materially affected.

While Betfair is uniquely positioned with internal technical expertise, our other customers - who are primarily gaming and/or casino organizations - continue to benefit from the greater liquidity, outsourced technical expertise and expanding product offering developed by CryptoLogic.

Our record of strong results speaks to why we remain committed to working with a targeted group of world-class licensees to capitalize on key game and market opportunities that will generate the highest returns. Our decade of experience has proven that those operators with a trusted brand, an established user base and the commitment and resources to market will grow sustainable online businesses. It’s about quality, not quantity of customers as licensees. While we seek opportunities to add new customers, they must meet our strict criteria - and this discipline continues to pay off.

Lastly, our diversification and discipline has translated into **consistency** for CryptoLogic.

Consistency is about doing what we say we’re going to do again and again - that is setting and meeting expectations and following through on our strategy. That’s why we’ve earned certification in regulatory jurisdictions. And that’s why we’re one of the first and a long-established publicly traded company. As a result, we’ve achieved consistency in our disclosure, transparency and financial performance.

We've also consistently said that Internet gaming should be regulated for the protection of players and the integrity of the industry - this adherence to high standards of government approval and transparency continue to set us apart.

On this score, the UK - one of our premier markets - just published for public consultation its draft statement of principles. This is the next step in developing the specific licensing conditions and codes for a regulated online gaming regime, which is expected to come into effect in 2007. We're taking every opportunity to contribute to this process to foster a commercially-sound and responsible regulatory environment.

While in the US, Senator Kyl's most recent attempt seeking prohibition in the US encountered opposition once again, this points to the ongoing debate over Internet gaming in the US. This lack of clarity continues to validate our global diversification strategy.

Diversification. Discipline. Consistency and Innovation. These are the qualities that differentiate CryptoLogic in the dynamic, fast-evolving online gaming industry.

Another quarter of strong performance in Q3 reflects our excellent mix of blue-chip products, blue-chip clients, and diversification across the world's blue-chip markets for Internet gaming. And the early results for the fourth quarter continue the positive momentum in both our core Internet casino and Internet poker businesses as reflected in our strong Q4 guidance.

I shall now ask our Chief Financial Officer, Steve Taylor to address our third quarter financial results.

Stephen Taylor: Thank you, Lewis, and good morning ladies and gentlemen. I will review the highlights of our third quarter results for 2005. Please note that all figures are in US dollars.

In the third quarter of 2005, CryptoLogic achieved record revenue of \$21.0 million. This occurred during the summer period when Internet gaming activity normally slows. Earnings were near record levels, up 80% to \$5.1 million or \$0.36 per diluted share.

We are clearly benefiting from the addition of new casino games and an expanded poker offering.

As a result, Internet poker fees were up 89% over the Q3 2004, and up 6% sequentially over the Q2 2005. On a year-to-date basis, we posted a 143% increase. The popularity of our new games contributed to a 12% increase in Internet casino revenue over Q3 2004. Casino also posted strong sequential growth, up 8% over Q2 2005. I'm proud to say that we're well known for the best online casino products in the market.

Q3 operating costs were \$12.8 million or 61% of revenue, down from 66% a year ago. We continued to invest in diversifying our business to help customers grow market share and player loyalty.

- A succession of new casino games are the key growth drivers in our business;
- We're widening the choice of games, stakes and tournament options in poker;
- We're expanding and strengthening our poker system; and
- We're improving our back office offering with sophisticated business intelligence, data warehousing and marketing tools to help customers better understand and serve their players.

Initiated a year ago, our major investment program should be substantially completed this year as planned. Of this \$12.5 million program, \$10.4 million or roughly 84% has been invested to date. This is made up of \$3.6 million in operating costs, \$3.1 million for the purchase of capital assets and \$3.7 million for capitalized software development.

EBITDA and net margins improved significantly to 28% and 24% respectively for the quarter. Increased margins reflect the early benefits of higher revenue from our investments and improving operational leverage.

Our balance sheet is equally strong. At September 30, 2005, we had no debt, and our total cash was \$92.1 million or \$6.49 per diluted share. Working capital was \$69.5 million.

In Q3 2005, the growth in operating cash flow to \$14.2 million was due largely to higher earnings and a significant decline in security deposit requirements to our payment processors. Higher prepaids were primarily due to royalty licensing fees related to new games under development.

We believe at recent stock prices, buying our own stock is one of the best investments we can make. Since August, we've bought 493,300 shares at an average price of US\$18.04 for a total of US\$8.9 million.

We have also increased our quarterly cash dividend by 40% to US\$0.07 per share and given our earnings and cash generation. This reflects our confidence in our future.

Looking ahead, we expect Q4 revenues in the range of \$22.2 - \$22.6 million with earnings of \$5.4 - \$5.6 million or \$0.39 - \$0.40 per diluted share, which would be new highs in both top and bottom line. This assumes 14.0 million weighted average fully diluted shares outstanding.

CryptoLogic has an excellent combination of blue-chip financials and vast growth potential - and I'm excited to be part of both its present and its future.

I'd like to thank you and now I'll turn the call back to Lewis.

Lewis Rose: Thank you, Steve. We'll now open the floor to questions.

Operator: We will now begin the question and answer session. To place yourself into the question queue, press star one on your touchtone phone. If you're using a speakerphone, please pick up your handset and then press star one. To withdraw your request, press star two. Please go ahead if you have any questions. Your first question comes from Todd Coupland from CIBC. Please go ahead.

Todd Coupland: Can you talk a little bit about Betfair in the quarter and Betfair in the guidance. Is it changing much or is it still around 10%?

Lewis Rose: We disclosed that Betfair's contribution was between 5% to 10% of revenue. We don't normally disclose individual licensees' contribution. The reason we have done this, which is a departure from the norm, is that they took on a significance that was disproportionate in our view to their contribution. Having said that, we expect that business outside of their contribution will continue to grow. So it's a bit of information for you to use as a percentage depending on the rate of growth of other licensees' revenue. The key point to note for 2005 and 2006, there will be no material impact on

CryptoLogic's earnings as a result of the Betfair decision which was to bring their technology in-house.

Todd Coupland: The casino is much stronger than probably most people were thinking. How long do you think you'll get the kick from the new games? Is this something that can continue for a few quarters? Is casino starting to fundamentally grow at a faster rate?

Lewis Rose: We have for a long time said that despite the fact that poker has shown so much growth potential, we've considered poker to be the "sizzle", casino is the "steak". And our opportunity to grow casino comes from the fact that we've spent a tremendous amount of time on research - researching players, trends, opportunities, and we are delivering a range of games that meets players' needs and customers' needs. We are very optimistic about the future of casino. We don't expect that the casino growth this quarter is going to be a one-off.

We are rolling out new games consistently to licensees across the board and we've seen tremendous successes. The games that have just been launched include brand names like the Hulk, X-Men and Daredevil. It's very exciting to be able to battle and hunt vampires and smash tanks to win substantial cash prizes and we obviously offer that opportunity with exciting bonus sequences and in multiple currencies including US dollars, euros and pounds. So we're optimistic about the opportunity for growth in casino notwithstanding the perception that the industry is not growing at that same pace as poker.

Todd Coupland: Can you talk about your new customer pipeline and how you're feeling about that and what our expectations should be?

Lewis Rose: As we've said many times, we will be happy with the addition of one or two new licensees per annum because of the select criteria that we use before we sign up a licensee. They have to have a brand name, a player base and both the resources and the commitment to market the product. There are over 1,200 online gaming sites, and they have to be able to differentiate themselves. We are in active discussions with about a half a dozen legitimate candidates. But the important point to note is that the discussions are in various stages of progress. They range from very early days to competitive bids in the process that's quite regimented.

We have a fertile sales pipeline, we are in active discussions with about a half a dozen, in various stages. I cannot commit specifically to a date and time but our criteria will continue to be applied. In the meantime, the good news is that we are continuing to grow with the existing business, with existing customers with the launch and introduction of new games and new products.

Operator: Your next question comes from Brian Kinstlinger from Sidoti and Company. Please go ahead.

Brian Kinstlinger: Can you give us your thoughts on the third quarter in terms of poker, your comments and my following of the industry would certainly suggest that the third quarter is typically, seasonally weak. Can you give us a sense of what you think is driving the growth in the third quarter and do you think that maybe it suggests that growth isn't slowing and adoption isn't as fully penetrated as some people suggested recently in the market.

Lewis Rose: From our point of view, it's unrealistic to expect that the 30-fold increase of the past few years for poker will continue. And so you will clearly see moderation in month-over-month and quarter-over-quarter momentum. Nonetheless, the industry fully expects a significant increase in 2005 versus a year ago. From our point of view, we are continuing to show growth and we've been saying it all along that the poker business has the growth potential to continue for some time.

Brian Kinstlinger: Is that where the surprise came from in terms of what your guidance was in the third quarter, actual revenue came from the fact that you probably expected a little bit slower poker given the seasonality?

Lewis Rose: To some extent that's correct, Brian, because we haven't experienced many years of poker the way we have in casino. The casino performance was clearly better than we expected. The gains from new games, although were optimistic, outperformed our expectations in the early days of release, and in poker we're still optimistic that while we focus on the big "whales" and the introduction of poker software enhancements will enable us to continue to grow the poker business.

Brian Kinstlinger: And in the poker business, is the split generally the same as your split in your overall business. How does poker split US/Europe roughly?

Lewis Rose: Poker is slightly higher for European. Both casino and poker are very strong in UK and Europe, they are over 60% of our revenue, slightly higher in poker than casino.

Brian Kinstlinger: You mentioned the reasons that the gross margin was up. As I look to next year, a couple of questions. First of all, your investment is winding down for 2005. I'm interested if you plan to make some big investment in 2006. At some point as poker grows, do you need more capacity, how does that tie into gross margin next year and how much is it based on volume too?

Lewis Rose: The planned major investment program should be substantially completed by the end of this year, and clearly you can see from the results, we're benefiting from the earlier returns of these investments as evidenced by the growth in EBITDA margins in Q3. This is not a forecast, but we expect that we'll be able to sustain these margins going forward. We provided you with guidance for the fourth quarter of 2005, which we believe is very strong.

In terms of the capital expenditures going forward, we looked at this on a minimum run rate basis, more of an operating capital expenditure that's required. The question really for next year is to what extent the regulatory environment in the UK will require a change to the regulated software support and infrastructure system that we have.

It is likely that we will plan for incremental investments, specifically to support the regulatory initiatives, to position CryptoLogic for the regulated market in the UK for online gaming, once they finalize the rules. That may add 2% or 3% in terms of the capital expenditures. Normal capital expenditures in relation to revenue is in the order of probably 5% or 6%. Our view of the incremental investments in respect of the regulatory requirements for the following year is probably in the order of 2% to 3%.

Brian Kinstlinger: What will run through your income statement next year will be any costs you have to put into changing your software because of regulation. Other than that, the only downside to margin would be if you have pricing pressures, and there's negotiations with two clients next year. Is that accurate?

Lewis Rose: That's a fair characterization. From our point of view, we're running a business and there are unexpected opportunities and challenges.

Brian Kinstlinger: Can you give me a number of how many deals have been awarded this year that you had an interest in and hoped to win?

Lewis Rose: There were very few.

Brian Kinstlinger: I wanted to talk a little bit more about acquisitions. For about three quarters you have talked about wanting to do something with your cash and clearly you haven't promised anything and nothing has happened. But valuations seem to have pulled back in the entire space, I think driven by PartyPoker's cautious comments which may be company specific, maybe not. I'm curious what we can expect now and when you expect to maybe put that cash to other uses. You bought back shares and increased your dividend, but can you comment on acquisitions.

Lewis Rose: One of the healthy debates we have at our Board meetings every quarter is the appropriate use and responsible use of the cash balance. And we look to a number of various options for the appropriate use. We've increased our regularly paid cash quarterly dividend, and we look at that in the context of the cash that we generate each year and the earnings that we expect to generate. The opportunity to repurchase stock and as Stephen has pointed out, we believe that the current levels don't reflect the underlying value of the company and therefore we continue to repurchase shares.

The third opportunity that we've looked at is a special dividend. The fourth opportunity is investing in the business and the fifth is acquisitions. As far as investing in the business, we've got a major investment program that's going to be completed by the end of this year, but we do have capital expenditure expectations for next year that include the normal course plus regulatory. Those costs will be funded from the normal course cash generated each year.

As far as a special dividend is concerned, we're not convinced that it's the right time because there still are opportunities in the context of a consolidating industry that's evolving and fast changing. We're very excited about the prospects for growth. We want to ensure that we have ammunition or gun powder if you will, if the opportunity arises.

The one thing that we can assure you, we're not going to overpay and we're not going to be reckless in the use of the cash. It's a discipline that we've had from day one and I've said before in conference calls, there are much smarter men and women than any of us sitting around the table, like Warren Buffet who says that investing is like an endless baseball game, you wait for the right opportunity and the right pitch before you swing.

From our point of view, we continue to actively look for opportunities, we're exploring opportunities, we're in discussions with people all the time because this is a fast changing industry. We're not going to compromise our principals and purchase for the sake of purchase. From my point of view, the way I look at it, is the results speak for themselves.

We've just delivered earnings that are up 80% and by any measure, that's very effective and very impressive results. We will continue to do what we're good at. Sooner or later we'll find the right opportunity and to be candid, we've come close a few times but at the end of the day, the opportunities that we've looked at either wouldn't have yielded long term value for shareholders or we didn't feel ultimately it was the right thing for the business.

Brian Kinstlinger: The land-based tournament last year is seen as a marketing cost as it costs you a little bit of money. Do you expect the same this year or based on early entries, do you see that breaking even for you?

Lewis Rose: The land-based tournament enhances the profile and the attractiveness of the poker room for our licensees and for their players. We don't expect that there will be material costs associated with the CPC, "Caribbean Poker Classic". We do expect that there'll be some costs but it's not going to be material.

Brian Kinstlinger: With respect to the Betfair agreement, can you give us any more detail if it's a higher rate or a one-time payment? What would happen if the company left mid-year, how would you get compensated?

Lewis Rose: We have a confidentiality agreement with Betfair in terms of the agreement so I can't give you the specifics. I can say that in 2005 and 2006, irrespective of when Betfair leaves, there will be no material impact on our 2005 or 2006 earnings.

Operator: Your next question comes from Traci Mangini from ThinkEquity Partners. Please go ahead.

Traci Mangini: Regarding acquisitions, can you share with us any more information on what a profile of a candidate might look like. Would you acquire an operator? Would it have to be another network and if so, how many networks are there of ample size that would make sense?

Lewis Rose: We've categorized our requirements into specific criteria. First, the acquisition has to strengthen our core business. Secondly, it has to either accelerate our growth in new technology, new channels, emerging game areas and/or geographic expansion. Thirdly, it has to be complementary to our strategy and finally, synergistic in terms of value and accretion. We want it to be an accretive and long term, appropriate decision for the company.

The profile therefore looks like companies that are either new game development areas. We've looked at mahjong, checkers, backgammon - skill-based games. We've looked at new distribution channels, interactive television opportunities, mobile software development companies. We've looked at payment processors. We've looked at software developers and providers like CryptoLogic and then finally we've looked at operators.

There's no question that for example, buying a poker room would mean an adjustment to the strategy but it could well be a tremendous opportunity that would enhance value for shareholders. So we've not dismissed opportunities like that. The moral of the story at the end of the day is that the acquisition has to make sense at an appropriate price that is accretive and does provide long term, sustainable opportunity for CryptoLogic. In the meantime, we are generating excellent returns by investing in our own business both in terms of the investment program and through the stock repurchase plan.

Tracy Mangini: On the regulatory front, it sounds like Senator Kyl is still committed. Are you hearing any buzz on what his latest strategy is?

Lewis Rose: There are rumours and innuendo that are constant. From our point of view, we have to be vigilant to ensure we are aware. After eight years of failed attempts, it speaks to our strategy to ensure that we grow outside of the United States to diversify the business geographically.

The bottom line is that the US market remains uncertain and there are conflicting agendas and there's no resolution of success expected any time soon. From our point of view, we have to focus on growing our business and that's why it's grown now to over 60% of our licensees' revenue coming from outside of North America. That's up from 30% four years ago and we believe that's now an appropriate and healthy mix.

Operator: Thank you. Your next question comes in from Greg Harris of Canaccord Capital. Please go ahead.

Greg Harris: Recently there was the announcement that Virgin Games went with Boss Media. This is a company that fits a couple of the characteristics that you've been talking about, like strong brand, money to spend acquiring customers in the EU channel for customer acquisition. This looks like it's a fairly good name to have in the complement of licensees. I know this was one that you guys were looking at. At the end of the day, why do you think that Virgin ended up going with Boss Media?

Lewis Rose: One of the questions we were asked earlier is how many opportunities that we really felt would be an appropriate opportunity. This was one of two. We did speak to Virgin, presented them with a very credible, competitive bid. We obviously cannot speak to their rationale and decision making.

We offer strong liquidity, we offer global coverage, we rank now amongst the top handful of revenue-generating poker rooms on the Internet worldwide, we attract over 7,500 players simultaneously online. So there are a number of advantages to CryptoLogic and its licensees' common poker room. In addition to that, we have regulatory experience in multiple jurisdictions and we're able to offer our licensees a choice of jurisdictions as well for their online businesses. So we felt that we made a very strong bid and cannot speak to the decision making process.

Greg Harris: Do you think price was a big issue and is that something that you see a lot nowadays? Have you appointed a new head of sales and marketing since Jon Moss left, a while back?

Lewis Rose: In terms of the impact of price and the decision making process, obviously price is a factor, there's no question. So is our

regulatory experience, liquidity in the room, the fact that we offer multiple currencies, the fact that we have a strong time zone presence in GMT time, the fact that we offer multiple languages, 24/7 customer support. So price is a consideration. I don't know what the rationale was for the ultimate decision. Price could have been a factor but there may be something that we just aren't aware of.

Regarding sales and marketing, from CryptoLogic's point of view, we operate through our WagerLogic licensing subsidiary. In terms of licensee sign ups, our WagerLogic subsidiary based in Cyprus has both the expertise and the knowledge to be able to work with potential candidates. We're very selective in the candidates we speak to. There are only about a half a dozen legitimate candidates we're speaking to at one time, we're also very conscious of cost. Our view is that through our WagerLogic subsidiary we are able to accommodate the sales and marketing function directly.

Greg Harris: Can you let us know what happened with the \$5 million in security deposits this quarter and if you could touch on how much of the operating costs can be attributed to Adsdotcom?

Stephen Taylor: In answer to your first question about the return of the \$5 million of cash, we entered into arrangements with some of the payment processors for guaranteed terms such that we were no longer subject to charge backs with these providers. We've traded off slightly and it's not a material amount increase in the fee rate for getting our cash back and having the security of not knowing we're responsible for charge-backs going forward.

So I think it is a reflection of our strong financial position that we're able to negotiate these good financial terms with the payment providers that we're dealing with, that they're willing to take smaller guarantees and give us more favourable terms in conducting our business.

Greg Harris: How much of the operating costs can roughly be attributed to Adsdotcom?

Lewis Rose: We describe and disclose our overall revenue coming from poker, casino and other revenues includes one-time customization fees. So we don't disclose that line item separately.

Operator: Thank you. Our next question comes in from David Shore with Desjardins Securities. Please go ahead.

David Shore: PartyGaming and Empire Online are reportedly in talks again. With respect to the industry and as far as the poker space goes, do you have any comments about potential effects that that might have?

Lewis Rose: Clearly, PartyGaming is a leader and they've done a fantastic job in growing poker awareness worldwide. And raising, from our point of view, the profile of the online poker industry and acceptance into mainstream is a good thing. And as you know, PartyGaming and Empire Online have a close relationship between the two. Empire Online effectively uses the PartyGaming software. So it's a natural combination from that point of view. It speaks to consolidation in the industry. We believe it's all good.

To the extent that online poker is going to continue to grow, there's going to be continued concentration, focus and opportunity, it's good. We're up for the challenge; we're excited about the new games, the new software enhancements that we've delivered. We're excited about our licensees' own Caribbean Poker Classic tournament for example, that I mentioned earlier. We continue to be one of the fastest growing poker rooms on the Internet. We continue to be ranked amongst the handful of top revenue generating rooms and we've demonstrated that with our quarter over quarter growth. So we think this is all good.

David Shore: What is the headcount?

Lewis Rose: We refer to it as employee strength, David. Our employee talent now numbers 370.

David Shore: Where do you expect that to be by year-end and by year end '06?

Lewis Rose: Approximately 400.

David Shore: And do you have any idea for '06?

Lewis Rose: The objective is to maintain the level at 400.

David Shore: Stephen, taxes came in a little lower than we expected in the quarter. Where do you think they're going for the rest of this year and for next year?

Stephen Taylor: We have an ongoing tax planning process in place that operates in multiple jurisdictions. I expect that over the next couple of quarters, the tax rate will continue to be a little bit lower - 10% to 11% range. As we move into 2006, I think it will continue to stay within the range that it's been running over the last year. I'm not prepared to commit at this point of time until we finish our tax planning as to exactly where that's going to go. So I think you should expect short-run, good rates in the 10% to 11% range and then I'll give further guidance in quarters as we go forward on where it's moving.

David Shore: Can you give us an idea on where you're focusing your efforts, over the next twelve to eighteen months on new game development?

Lewis Rose: Casino continues to be a priority for us and we will continue to release a stream of new games in casino. In terms of poker, we will continue to deliver new features and new functionalities. We've improved the poker product, the system infrastructure substantially to handle the growing volume in the room. We've released almost 50 new themes and variations in the most popular casino games since 2004, particularly in slots.

But it's not just about new games in poker and casino. We've also spent a significant amount of money in terms of upgrading the quality of our back-office offering with more sophisticated business intelligence, customer relationship management tools, and reporting tools, to assist our licensee customers in better analyzing data so they can better serve their players. So it's really a strategy of focused products in casino, poker and back-office.

David Shore: How many concurrent users could you handle on poker now?

Lewis Rose: In poker, we're probably well over 16,000. At peak times we've hit 7,500 but we believe we can do well over 16,000.

Operator: Thank you. Our next question comes in from Chang Qiu with Forun Technology. Please go ahead.

Chang Qiu: Regarding future growth in both poker and casino, there are a lot of worries regarding a slow down in poker and also looks like your sequential growth in poker is 6%, is lower than 8% for casino. Can you give us some comments regarding what you're thinking about the future?

Lewis Rose: We've provided guidance for the fourth quarter which we believe is very strong. Included in the release today, we have the fourth quarter guidance which shows growth in both poker and casino, a reflection of the fact that we expect growth in casino to continue. We expect moderation in poker to be expected but we do expect positive momentum in both casino and in poker. We've said poker numbers are up sequentially 6% and the casino numbers are up sequentially 8%. Again, in our view, those are very strong numbers.

Chang Qiu: In the future do you think your revenue mix for poker and casino will remain the same as Q3 around 10%?

Lewis Rose: We're showing expected growth in the fourth quarter of approximately 8% sequentially. Again, in our view, that's very impressive growth.

Chang Qiu: The rate is the same for poker business and the casino business?

Lewis Rose: Yes, it's approximately the same and we're expecting growth of almost 10% in earnings sequentially too.

Chang Qiu: What's the lifetime of a game from the introduction until it is outdated?

Lewis Rose: Unlike a land-based casino which has a finite space allocation for physical slot machines, there's effectively an unlimited number or amount of capacity available for new games. So when we launch a new game, we do not replace an old game with a new game because there's unlimited capacity. In our view, the most important aspect is to ensure you have an effective menu system so players are not overwhelmed by the multitude of games. We offer over a 150 games to players and we don't retire games as we introduce new games.

Chang Qiu: How long is that time window where the game is popular?

Lewis Rose: Well it depends on the game itself. The new games that we've recently introduced have shown no signs of slowing. They continue to grow. It depends on the extent to which our licensees are able to ensure that they get the message of the new game out to their players. So it's dependent not just on introduction of a new game but dependent equally on the marketing efforts of our licensees.

Our view is, the more effective, the more impressive, and the more innovative the games that we deliver to our licensees and the better reporting tools and the better data management we provide for our licensees, the better they can market the new games to their players and ultimately, the higher the revenue to our licensees and to CryptoLogic.

Chang Qiu: How many years, or how many months is that popularity time?

Lewis Rose: We have games that we're offering today that we launched when we were born. So we have games that are basically ten years old that are still around and generating revenue. There's no incremental cost so it's really all incremental revenue.

Chang Qiu: For the poker room you have a peak of 7,500. Do you have a similar number for your casino games if you added them all together?

Lewis Rose: No, the reason is that in poker, liquidity is a hugely important factor, it's a completely different key performance indicator. In poker, the key is to have liquidity over the course of the day. And one of the advantages of having strong UK and European presence is that we can offer liquidity which is critical mass at a range of different table stakes from low level stakes to significant pound, sterling and euro stakes throughout the course of the popular GMT peak time.

In casino, although we do offer multi-player games, most of the games are player against computer as opposed to player against player. Player against player requires that liquidity. So the measure is not as significant.

Chang Qiu: What's the number for your capital expenditure for '05 and maybe also the planned number for '06?

Lewis Rose: The total capital expenditures will be approximately \$12.0 million which includes a significant proportion of the major investment program that we began in Q3 of '04. So next year, we will have normal capital expenditures in approximately 6% of revenue range but in addition to that, we'll probably have approximately 2% or 3% related to the market that will be regulatory in the UK.

Because the rules have not yet been fully defined and the regulations are not yet complete, in order to support the regulatory initiatives to position CryptoLogic to take advantage of the new regime in the UK, we are likely going to be spending money to ensure full compliance in whatever jurisdiction is appropriate. We don't know today, exactly what those rules are going to say. So we're estimating it will be approximately 3% of revenue.

Operator: Your next question comes from Barry Baker from MoneySmarts. Please go ahead.

Barry Baker: You mentioned that your strategy has been emphasized in the European markets in some of the regulatory environments and the past few years you've been asked about the Asian market specifically. I wonder if you could just address the situation there and any potential opportunities or changes in the climate that you see that might allow for CryptoLogic's expansion there?

Lewis Rose: Asia is tantalizing in many respects because it offers such tremendous growth potential, but it's much easier said than done. There are challenges of both fragmented legislation and the inability to have access to international credit cards and other, more easily acceptable payment forms. For example, there is no single popular payment method across Asia and there's very limited access and use of international credit cards. We've seen some encouraging Japanese traction.

As you know, we offer our software in seven different languages including Japanese and Chinese. China has been very slow to develop because of the absence of Internet payment options and regulatory concerns. So you can't actually look at Asia in a blanket context, you have to look at every single country

within Asia and the merits of each one intuitively and from quantifiable experience, there is a significant gambling market opportunity.

There's also significant mobile development in many countries in Asia. It's a question of getting it through or threading your way through the fragmented legislation and also ensuring that there is sufficient, acceptable international forms of payment to be successful. And the payment forms people are working on, payment processors are working on, so there may be some movement on that in the upcoming months but certainly in terms of legislation we're quite a way away. So it's a tremendous opportunity, but I'm not optimistic that it's going to happen in the short-term.

Barry Baker: Thank you.

Operator: Your next question comes from Jeffrey Ke from Acorn Global Partners. Please go ahead.

Jeffrey Ke: You have announced that you are going to repurchase up to 10% of your outstanding shares and it seems from today's report that you have already purchased close to half million in 3Q. Can you update us on that? Are you planning to aggressively repurchase that in the foreseeable future?

You have talked about the possibility of doing some acquisitions and you gave us pretty good announcements on that. Have you thought about the other side, how is the opportunity of being acquired or merged with other big players? Thank you.

Lewis Rose: Let me deal with the buyback first. There are several limitations to a buyback program. First of all, the company is limited to acquiring 2% of the float in any 30 day period so that inherently provides a cap on an ongoing basis. The second cap is that we cannot acquire more than 10% of the float in the 365 day period.

We announced the intention that, if the circumstances are appropriate and the Board feels that it's appropriate, we can repurchase up to 10%. We have bought 493,300 shares. We will continue to take the long term view, which is to grow the business. One of the opportunities to take advantage of the financial position that we have is to invest in our own business through buybacks.

On the second question which is effectively, do we want to be acquired or are we available to be acquired. We very much focus on building the business. That is our priority; we've said it several times. As a growth company, our intention is to create value for investors. As you can appreciate, I cannot speculate on a response to this question. What I can say, it is not part of our strategy. CryptoLogic is the granddaddy and the industry leader of online gaming.

We were one of the very first to launch a play-for-real, online casino a decade ago. We'll continue to lead the way with some of the best and the broadest game offerings. We're working with the best of the best in international gaming brands, we're investing in some of the best markets in the world and we're producing some of the best products in the world. Certainly in casino we would definitely be considered to be industry leading. So we are very focused on delivering continued, profitable returns to our shareholders and cannot speculate on the response to your question.

Operator: Your next question comes from Brian Kinstlinger from Sidoti and company. Please go ahead.

Brian Kinstlinger: How many clients in 2007 are expiring where the contracts will be renegotiated?

Lewis Rose: There's one in 2007.

Brian Kinstlinger: Is that a very large one or a very small one?

Lewis Rose: It's medium.

Operator: This concludes the question and answer session. Please go ahead Mr. Rose.

Lewis Rose: Thank you very much ladies and gentlemen for joining us today.

CryptoLogic's third quarter results validate that we have what it takes to thrive in our primary growth areas of Internet casino and Internet poker.

We will continue to execute against our strategy of customer, product, geographic and market diversification. By remaining committed to this disciplined approach, we aim to provide superior returns to our shareholders.

I look forward to sharing our continuing progress with you on our next quarterly call. Thank you.