

CryptoLogic Inc.
New CEO Conference Call
December 12, 2000
1:00 p.m.

Operator: Good afternoon ladies and gentlemen. Welcome to the CryptoLogic Inc. conference call. I would now like to turn the meeting over to Mr. Andrew Rivkin, President and Chief Executive Officer. Please go ahead Mr. Rivkin.

Andrew Rivkin: Good afternoon ladies and gentlemen. I am Andrew Rivkin, CEO and Director of CryptoLogic. Also in attendance are Mark Rivkin, COO and Director of CryptoLogic as well as other members of management.

We want to take this opportunity to speak to the appointment of a new CEO at CryptoLogic. CryptoLogic has enjoyed exceptional growth in the past five years. We have now reached a pivotal point in our growth and it is important that we look ahead to ensure the company's long term success.

Having founded CryptoLogic in 1995, Mark and I are extremely proud of how much the company has accomplished. Going from an Internet start up to become the world's leader in Internet gaming and e-commerce software. New leadership to take the company to the next stage is a natural progression for CryptoLogic.

Therefore, Mark and I have decided to step aside and play more strategic roles. We will continue to be involved in the company's advancement as shareholders and directors.

We are delighted to have attracted a highly qualified senior executive in Jean Noelting to assume the position of President and CEO of CryptoLogic, effective January the 8th, 2001.

Jean brings a nineteen-year track record demonstrating vision, leadership and the ability to deliver results. He will enhance the breadth of our strong management team with executive experience in operations, marketing, acquisitions, business development and international business know-how with both public and private companies. Most particularly, Jean has extensive experience in operating and driving profitable growth in billion dollar organizations, which will be a key asset to taking CryptoLogic to the next level.

CryptoLogic's strength has and continues to be great technology with an experienced high tech team. Jean's sales, marketing and operational expertise will complement our proven track record of technical know-how, creating a well rounded management team to drive the company forward.

Jean brings a long list of achievements having held executive posts at Parmalat Canada/Ault Foods, Westburne Inc. and Campbell Soup Company. He will join CryptoLogic from his prior position as President and COO of Westburne Inc., a \$3 billion organization and leading Canadian distributor. Jean has also held directorships on the boards of Videotron, Oralife and LOOK Communications.

Highlights of Jean's accomplishments include revenue growth for Westburne of a \$150 million a quarter through both organic and acquisition growth, which saw the company's sales and profits rise more than 25 percent. He also played a strong part in gaining multi million dollar accounts with large clients such as General Motors and Shell. As President of Parmalat Canada's \$1 billion division, Jean demonstrated similar success by growing that business by 12 percent.

Mark and I will work with management to ensure a smooth transition and support of Jean in our ongoing capacity as active directors. We are confident that Jean has the right expertise and enthusiasm to leverage the company's solid fundamentals, exploit the tremendous opportunities in the Internet gaming market and enhance shareholder value.

CryptoLogic has also decided to postpone the spinout of our e-cash entity due to unfavourable market conditions and focus our efforts on our core competency in Internet gaming. We will continue to evaluate opportunities to commercialize our e-commerce technology for mainstream applications.

The past six months has seen unprecedented interest in Internet gaming by governments and gaming organizations from around the world. For the first time, Las Vegas operators such as MGM and Harrah's are entering the market with play-for-fun/play-for-prize sites and positioning themselves for a regulated industry. These recent developments are indicating increased opportunities in our core business, which are well suited to Jean's background.

We feel that we will realize greater shareholder value in the near term by leveraging CryptoLogic's leadership position in the global, online gaming market. Internet gaming is estimated to be a US\$1.5 billion business in 2000 and is expected to grow to US\$6 billion by 2003. And with Jean leading our team, CryptoLogic is well positioned to continue to capture a major share in this exciting growing market.

I'm now happy to open the floor to questions.

Operator: Thank you sir. We will now poll for questions. If you have a question, please press one on your touch tone telephone. If you are using a speaker phone, you may need to lift the handset first and then press one. Should you wish to cancel your question, please press the number sign. Please press one at this time if you do have a question. There may be a brief pause while the participants register for their questions. Thank you for your patience.

And our first question is from Richard Whitman from Palisade Capital. Please go ahead.

Richard Whitman: Yes gentlemen, while I applaud your decision to recognize that the next level of development requires senior management to carry you forward, I find it unusual that both of you are totally resigning from management entirely. So I guess the question is a further explanation of your motives in that regard and then the obvious question is what do you intend to do over the next year or so regarding your substantial stock ownership in the company?

Andrew Rivkin: Let me answer the first question, or the last question first, we have no intention of selling any stock. We're strong believers in the company. Mark and I have stepped aside to make room for Jean. We felt that in order to give him the opportunity to lead the company through this next phase of growth he had to have his hands on the reins. Both of us will still remain as directors of the company and as active directors. We intend to, on an ongoing basis, to support Jean in whatever his needs may be and in addition, proactively to assist in licensing in direction of technology as may be necessary as well.

Operator: Thank you, Mr. Whitman did you have a further question?

Richard Whitman: No, answered. Thank you.

Operator: Thank you sir. Once again if you do have a question, please press one. And our next question is from Jamey Cappello from Sidoti and Company.

Jamey Cappello: Hi guys. A question regarding the e-cash, this is maybe more for Harvey. I was originally taking into consideration expense of about US\$300,000 per quarter, which were just modeling to this quarter because I thought it was going to be spun out. But am I to assume that I should extend those US\$300,000 quarterly charges indefinitely into my 2001 and 2 numbers?

Harvey Solursh: Yes.

Jamey Cappello: Okay, so it's going to bring down my EPS estimate a little bit.

Andrew Rivkin: The market conditions are not right for a spin out right now. We're continuing to evaluate and try to commercialize the technology. I don't know if it's going to go on throughout 2001 and 2002. If market conditions change, obviously we'll look to spin it out again. So it's really hard to predict when there's going to be a change to that expense line.

Jamey Cappello: Okay, and in terms of just the ordinary course of the quarter and this announcement coming now about the new CEO. This announcement is not a prelude to any kind of interruption in your operations is there?

Andrew Rivkin: No, we're on track with analyst expectations. We're looking at US\$10 million in revenue and a good performing quarter.

Jamey Cappello: Okay great, thanks.

Operator: Thank you and our next question is from John Britton from Select Equity. Please go ahead.

John Britton: Yeah hi, I just wanted to follow up on Richard's question. It is certainly a surprise to me. You are not exactly at retirement age, I was wondering if you could flush out a little bit more, the reasons why you felt that it was time for you to step aside? How long has this been process? Was the board involved in this decision? If possible, a little bit more background into the strategic thinking behind these decisions.

Mark Rivkin: Well Andrew and I decided about six months ago that this was probably going to be a good change for the company. We are now evolving from a small or medium sized company into a large size organization and that the company would be better off with the skills that Jean has than the skills that Andrew and I have, which is more of an entrepreneurial background.

John Britton: So it started six months ago?

Andrew Rivkin: That's right. It was our initiative and we got the board involved, everybody was on board with this decision. As I said, we don't feel that we're losing what we have to offer as founders and as leaders of the company for the past five years. We just feel we're gaining senior professional expertise that Jean brings in his expertise in sales and marketing as well. Our intention is to continue to assist the company in areas that we've been successful in helping CryptoLogic in the past but as active directors as opposed to CEO and COO.

John Britton: Okay, will there be any board changes?

Andrew Rivkin: I don't foresee any board changes at this time.

John Britton: Presumably Jean will be joining the board?

Andrew Rivkin: That's something that will be discussed at the board over the course of the next few meetings before the shareholders meeting.

John Britton: Okay, what about other changes in terms of team members that you would want to bring in, anybody else?

Andrew Rivkin: Well I think we've got a number of really good people on our management team right now. Those people are committed to stay with the organization. There is now a vacancy in the COO role and that's something that we're going to leave to Jean to recruit into that position.

John Britton: Okay, since this is also kind of a public forum, I was wondering, can you amplify your comments that you made in print about the moratorium in Australia, what impact you expect that to have in 2001 if any?

Andrew Rivkin: Yeah, essentially we're not expecting that to have any material impact on our revenue. We had intended to launch a version of the software, play-for-fun/play-for-prizes mode in January, February and the live version to go ahead in March. We will not be able to put the live version up until May now as a result of the moratorium but again, I don't think that that will have any material impact on our revenue for the next year. We're internationally diversified organization. We've got licensees all over the world. We're continuing to work as we have been in the past with the same vigor on the software certification in Australia, with Jupiters assistance. There continues to be opportunities around the world in the regulated environment. So I don't think it's going to have really any impact at all.

John Britton: Okay, thank you.

Operator: Thank you and our next question is from Bob Graham who is a private investor. Please go ahead.

Bob Graham: Hello, I have two questions. The first one is regarding the moratorium. What does that mean? Does that mean that they vote again in April or is that a done deal in April?

Andrew Rivkin: Right now there's a temporary moratorium where they're not granting any new licenses until May 18th. They will be reviewing the licensing of Internet gaming operations during that period. So right now they're basically put any new licenses on hold.

Bob Graham: All right. The next question relates to the earnings and I go back to, I guess I'm confused as your written notice yesterday talking about that you're on track on the earnings side. I'm a little confused because at the annual meeting in June, the forecasts were, I'm going to guess the last two quarters were somewhere in the forty plus cents. Then you came out with your announcement that your third quarter was not so good. What do you mean by being on track now in the fourth quarter for the balance of the year?

Andrew Rivkin: We announced and spoke in depth at our last conference call regarding Version 4.0 and it being late. All our analysts have revised their estimates and expectations and we're on track to meet those new revised estimates and expectations.

Bob Graham: Maybe I'm not right up to date on what those expectations are.

Andrew Rivkin: What we can do is if you call Nancy Chan- Palmateer, who's in charge of investor relations after the call, she'll be able to provide you with a set of analyst projections. We've got about five, six analysts covering the company. She can provide you with their revised expectations.

Bob Graham: Fine, I can call the company after this.

Andrew Rivkin: Absolutely and not just after the call, but at any time feel free to call.

Bob Graham: I've spoken to her before so I know where to call. Thank you very much.

Operator: Thank you Mr. Graham and our next question is from Jamey Cappello from Sidoti and Company. Please go ahead.

Jamey Cappello: One follow up question regarding the CEO pay, I'm sure we'll know that shortly and also the pay of you guys. I just want to know how that's going to increase my SG&A going forward. So maybe if Harvey can give me a buzz if he doesn't have an answer right now.

Andrew Rivkin: It's not published yet. We're not able to comment at this time but it's something that, as you said, you will know in the very near future.

Jamey Cappello: Okay. In terms of you guys knowing about the change of plans for CEO six months ago, what was the primary reason for keeping it from the five analysts? Was it due to certain volatility issues you perceived?

Andrew Rivkin: Well I think that until you actually find someone and recruit them, I guess we had goals of strengthening the management team starting as long as two

years ago. Through that period, we have been adding people to the management team. We added a vice president of business development, we added a senior sales person in London, we added a vice president of compliance and regulatory affairs, all that's been going on. Our goal has been to continually find senior management for CryptoLogic. Approximately six months ago, we recognized that in order to capitalize on the opportunities in the market, which appear to be in the regulated industry, we needed to have somebody who had professional experience who could lead us and who could take us there.

It's something that we felt that until we could show you guys somebody who we were satisfied with, we weren't ready to discuss it. I mean we didn't know whether it was going to take six months or six years to find the right person. We happened to find Jean and we're very excited about him. But you know, if that had not continued, we weren't able to find him now we would be waiting till the right candidate came along with may be some other point in the future.

Jamey Cappello: Okay and had you and Mark always planned to take a reduced role or step aside so to speak?

Andrew Rivkin: Well it's a natural evolution in any company like this that has had the kind of success we've had. When you get to a certain level, the entrepreneurial founders or leaders who got you there have different skills. You need to have a manager who has the skills to run an organization in its state today and not just today, really to run an organization as large as the organization that we see CryptoLogic could become in the near future. So we're doing this partially as pre-planning to make sure that we don't run into leadership problems that we could if this company gets as big as we think it's going to get.

Jamey Cappello: Okay, fair enough. Thanks a lot.

Operator: Thank you Mr. Cappello. Our next question is from Michael Moriarty from MJM Partners. Please go ahead.

Michael Moriarty: Hi. Just a little follow up on the search. Could you give us a sense of how broad you looked, how many candidates there were and I guess specifically, what about Jean attracted you to him and him to you? Could you go through the courtship if you will?

Andrew Rivkin: Well again, we utilized a very senior search firm. We reviewed a great number of candidates. The search included all of North America. We met many people. We very much liked Jean, we liked his background. We think marketing, brand and sales is going to be very important to the organization. We thought that what we had done in the past and will continue to do with our technology team, very well in the area of technology so we thought his background perfectly complemented the strengths of the organization. We felt that he was a very strong people person and we could relate to him and I think the rest of our senior management in the organization can relate to him. After a long search and reviewing a number of people, Jean was the unanimous choice of all the board of directors.

Michael Moriarty: Do you anticipate any, because of his skill set, any strategic change for evolution that may go on here because of his entering the picture?

Andrew Rivkin: Well I think that, again, he's got some skills in acquisition, which I think the company is well positioned to take advantage of. He's also got some skills in acquisitions of large scale customers as he did at Westburne and I think that that is an area that the company is well poised to take advantage of. As I mentioned in the opening, there are becoming opportunities in the regulated market with the major Las Vegas based operators. I think that he's the right guy to capitalize on those opportunities and also the right guy to potentially consolidate inside our market. So I think his background is better suited to that than perhaps Mark and mine was.

Michael Moriarty: Great, thanks a lot.

Operator: Thank you Mr. Moriarty, and we do have a follow up question from Mr. Bob Graham. Please go ahead.

Bob Graham: I just keep bothering you. Version 4.0, how is it being accepted because I've heard that maybe there are some problems and I'll be specific, William Hill, so can you tell me, are they using it?

Andrew Rivkin: Version 4 is showing encouraging results. Without it we wouldn't be able to meet the new revised expectations, which you'll obviously get at the end of this call. Six of our licensees are using it, InterCasino, William Hill, Kiwi, eBet, The Sands and Casino Sur. As I mentioned, it is showing encouraging results, so we are very happy with its performance. We're confident that our technology remains and continues to be the market leading technology in the industry.

Bob Graham: The other question relates to questions, which have risen after my last call but acquisitions, you seem to emphasize acquisitions. Often times acquisitions become a drain on a company. Can you comment on that please?

Andrew Rivkin: Well I think the industry that we're in has become fragmented over the past couple of years. I think that there are strong opportunities to make acquisitions within the industry. We talked about that on a number of conference calls in the past. Prices for opportunities and software providers in Internet gaming have been coming down. They're still quite expensive, but we think that there will be opportunities to leverage our very strong cash position. I think with Jean's experience in making a number of very significant acquisitions over the course of his career, we're in an excellent position to take advantage of it. He is a guy who understands how to make an acquisition, understands how to integrate into the organization. We will finally be able to take advantage of the cash position that we've created over the past five years.

Bob Graham: Thank you.

Operator: Thank you Mr. Graham and our next question is from Brian LaFleur from Scotia McLeod. Please go ahead.

Brian LaFleur: Yes gentlemen, just following up on the acquisition, do you expect to do vertical acquisitions or you think you would go horizontal, i.e. target another sector of the Internet gaming or online, you know, sort of activity.

Andrew Rivkin: Well I think we're most interested right now in our industry. We think that there's very strong growth right here. There are opportunities to do acquisitions outside of the Internet gaming industry. You know we did one a year or so ago and we were successful. If there's something that we find that can complement our technology and Internet gaming that's outside of the industry directly, we'll take advantage of that as well but we're strong believers in the Internet gaming industry. There will be opportunities inside that industry and those are the ones that we'll rush to take advantage of under Jean's leadership.

Brian LaFleur: Would you entertain something that might not be accredive at the present time just for the sake of getting your hands on something that has potential. Or would you look at only something that's going to add to the earnings?

Andrew Rivkin: No, I think we're focused on, as directors of the company on long term shareholder value. We're looking beyond 2001 into the future to build a very large organization and again, that's something that will permit both those alternatives to happen.

Brian LaFleur: Okay, thank you.

Operator: Thank you Mr. LaFleur and at this time Mr. Rivkin we have no further questions from the phone lines.

Andrew Rivkin: That's great. I'd like to thank everybody for joining us today. I look forward to hearing from everybody at our fourth quarter conference call which is scheduled for early February. Thanks again.

Mark Rivkin: Thank you.