

**CryptoLogic Inc.**  
**Third Quarter 2000 Expectations**  
**Conference Call**  
**October 2, 2000**  
**11:00 a.m. EST**

**Operator:** Good morning, 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 of CryptoLogic Inc. Please go ahead, Mr. Rivkin.

**Andrew Rivkin:** Thank you, everyone, for joining us this morning. I am Andrew Rivkin, President and CEO of CryptoLogic. Here with me today are Mark Rivkin, COO and Executive Vice President, Harvey Solursh, Chief Financial Officer, Nelson Lee, Director of Finance, and Nancy Chan-Palmateer, Director of Communications.

We wish to take this opportunity to speak to our revenue and earnings expectations for the third quarter of 2000 and the positive outlook for CryptoLogic. Afterwards, we would be happy to open the floor to questions.

For the third quarter ended September 30, 2000, we are expecting total revenues to be approximately US\$9 million, which is up 12.5% compared to US\$8 million in the 1999 third quarter. The company's net income is expected to be about US\$2.7 million compared to US\$4.8 million in the 1999 third quarter. We expect that net margins will average over 40% for the overall 2000 year. These are preliminary numbers, which may vary from the final results, will be announced at the end of October.

The delay in releasing Version 4.0 continued to impact our results in the third quarter. The revenue boost that we expected to experience in the later half of 2000 has shifted largely into the first quarter of 2001.

InterCasino was the first licensee to receive our Generation 4.0 software and commence major marketing initiatives in August. We are encouraged by the positive results they have posted in September. Also, Version 4.0 is now in the hands of other large licensees being William Hill, eBet and announced today Casino Sur, our Argentinean licensee. The majority of our licensee base should be alive with this technology by the end of October. Therefore, we expect the fourth quarter to post better performance but the greatest contribution is expected to be realized in the beginning of the first quarter 2001.

In the third quarter, we also accelerated investment in development and support areas due to the addition of major new licensees. Higher expenditures were attributed to the considerable activity aimed at launching these licensees as quickly as possible, enhancing infrastructure capacity and ongoing software certification work in Australia. Consequently, software development and support expenses increased

to about 50% of total revenue compared with 35% in the 2000 second quarter and 30% in the 1999 third quarter.

There has been a remarkable level of activity at CryptoLogic in the third quarter. We signed three major new licensees, more than CryptoLogic has ever done in one quarter. Equally noteworthy is that we now have launched two of these licensees, eBet and Casino Sur in the same quarter, with Casino Sur out in both English and Spanish. The third licensee, Kiwi Casino, is due out very shortly.

Although revenue growth has been modest and margins have come under pressure this year, we are confident that our strategy is on track to deliver stronger growth rates next year and increase our leadership position.

We continue to be the pacesetter in the industry. Consistent with our business strategy, we added a record number of brand name gaming organizations from around the world. We also introduced next-generation technology and made significant investment to scale up our operation to support and drive long-term growth for our licensees.

As a result, CryptoLogic will enter 2001 with the greatest number of brand name licensees in the industry, all live with Version 4.0, and ideally positioned to capture major market share.

Our fundamentals remain solid. We continue to post the best revenue, profitability and cash position in the global Internet casino market. Looking ahead, CryptoLogic has taken the essential steps to maintain our leadership status in a growing market.

On a separate note, management continues to view our shares as a very attractive investment. We have purchased about 40% of what we are authorized to buy through our share buyback program since the program was renewed in May.

We'd now be pleased to answer any questions.

**Operator:** Thank you. If you have a question, please press 1 on your touch-tone telephone. If you're using a speakerphone, you may need to lift the handset first and then press 1. Should you wish to cancel your question, please press the number sign. Please press 1 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 will come from Peter Swan of Pacific Growth Equity. Please go ahead.

**Peter Swan:** Yeah. Hi, guys. Could you take us through the issues of 4.0 because this has been a plague on the company since Q1. I just want to know what steps you're taking to fix the problem and to give us some more detail on what the problem was overall in the first place.

**Andrew Rivkin:** Basically, we were delayed in releasing the technology. As you know, we were in a position to deliver the technology in June. Our expectation at that time was that licensees would commence marketing immediately and we'd have posted better results for the third quarter. Unfortunately, our licensees did not really... or the first licensee commenced marketing in August.

The results with the marketing initiatives in Version 4.0 were very good but it really only impacted the latter part of the third quarter for one licensee. So the technology we think is going to bring better results for CryptoLogic over 2001. Unfortunately the timing of the product wasn't there.

The reason why it was delayed about three to six months on delivery of the product, was that we ran into a hiccup in the very late stages of delivery of Version 4.0 and had to rewrite some of the major part of the client interface.

Although it's Version 4.0, it's the fifth version of software which we've produced. We've never been in a situation where we've been delayed, certainly not as significantly as three to six months. What we've done in the third quarter to fix that is increased our development infrastructure significantly so that we'll be in the position to deliver software on time in 2001 and going forward. So I think that our track record of delivering software has been very good. We missed unfortunately once in five periods of software delivery and we've increased our infrastructure to make sure that this is not going to happen again.

**Peter Swan:** Okay. Have you found the acceptance levels have been really good with those that have it up, so I guess InterCasino... just sort of give us some color there as what they're seeing with the 4.0. up and running.

**Andrew Rivkin:** Well, we only have one month of history, as I said. Although we delivered the product in June, we were hopeful that InterCasino and William Hill, being two large licensees, would commence marketing immediately. We deliver the software and they're responsible for the marketing. So that is unfortunately not what happened. InterCasino started marketing in August and that led to September, which was much better than previous, but again it's a bit early to tell, it's one month of history. It's one licensee marketing the application. So we're hopeful that throughout the fourth quarter all large licensees will commence their marketing efforts and we're hoping to see the same kind of results as we've seen in September with InterCasino.

**Peter Swan:** Okay. Thanks.

**Operator:** Thank you. Our next question is from Charles Strickland who's a private investor. Please go ahead.

**Charles Strickland:** Mr. Rivkin, I had a question about your revenue stream. When you sign up a customer, do you get revenue initially or is your revenue dependant purely upon the use of the software by the customer?

**Andrew Rivkin:** 95% of the revenue is derived from use of the technology so we get very, very small revenue up front and the vast majority of revenue comes in over a course of the relationship.

**Charles Strickland:** With the customers that you have signed up, when you come out with a new version, what has been your experience with the revenue stream from that customer? Are they able to capture more of the market once they come out with a new version or is the version just mainly allowing them to keep up with the state of the art?

**Andrew Rivkin:** No, I mean historically a new version, a new piece of technology has increased the revenue base for all our licensees across the board and we're hopeful that Version 4.0 will produce the same results. So we were expecting a better third quarter. Now, the third quarter and second quarter are traditionally flat. That's across the industry due to seasonality. We were hoping as a result of releasing Version 4.0 in the last part of the second quarter to have a stronger third quarter because that's traditionally what happens when we release a version, it bumps up our licensees' revenue base. Unfortunately again, the marketing efforts did not commence until the last part of the third quarter, so we're still hopeful to have that bump-up in revenue come in principally in the early part of 2001.

**Charles Strickland:** And finally, one question. What do you expect Ecash to contribute to your bottom line in this next quarter, what percentage of the earnings?

**Andrew Rivkin:** There will be no contribution in the fourth quarter. We're still involved in a strategic round of financing for the application, so although, we're hopeful to have the product out, there will be no contribution to revenue in this year. What I can say is that we've spent about US\$310,000 in the third quarter specifically on the Ecash subsidiary and positioning it for a strategic round of financing.

**Charles Strickland:** Okay, thank you very much.

**Operator:** Thank you, Mr. Strickland. Our next question is from James Allen who is also a shareholder. Please go ahead.

**James Allen:** Good morning, Mr. Rivkin. I have one question for you. I'm curious as to your current revenue stream, United States versus international and how that might change going forward maybe into 2000 with the launch of your new international licensees.

**Andrew Rivkin:** The revenue breakdown did not change in the third quarter. It was as reported at the end of the second quarter, which was 60% revenue derived from the U.S. We believe that that will continue to go down on a go-forward basis. We've just

added Casino Sur, which is an Argentinean licensee. We just announced that this morning. They are a major land-based group in Argentina. We're very excited about that. We've also added another Australian licensee who is up as well with Version 4.0 technology. That's eBet. Their market is expected to be Asia/Pacific region and in addition to that we've added a land-based group out of New Zealand which is Kiwi Casino. We're expecting to have their software up in the very near future. So those three new initiatives, which were all completed in the third quarter, are all international land-based gaming groups as is following along with our strategic vision. Those groups will further serve to reduce our U.S.-based revenue stream.

**James Allen:** Thank you, Mr. Rivkin.

**Operator:** Thank you, Mr. Allen. Our next question is from Martin Bunge of Aragon Securities. Please go ahead.

**Martin Bunge:** Yes, hello?

**Andrew Rivkin:** Hello.

**Martin Bunge:** I have a question about Jupiter and eBet in Australia. I just wonder how is the outlook there for the market. They have said that they want to regulate it somehow.

**Andrew Rivkin:** I think that eBet being released as quickly as it was is very good. With respect to the Jupiters, we're still in the process of having our software certified. It is going according to the initial project schedule so we're encouraged and hopeful to have that licensee come up soon as well.

With respect to the Australian Federal Government and their proposed moratorium, which I think is at the heart of your question, we're very encouraged by what has happened recently in Australia. From a political perspective, there was a proposed one-year moratorium, which was retroactive and might have had an impact on our licensee, Jupiters. We believe that the current proposal, which has been brought down from a one-year retroactive moratorium to a possible three-month moratorium will not have an impact on our licensee, Jupiters. Neither of those moratoriums would have an impact on our licensee, eBet, so we're very encouraged. We're excited about that marketplace. We were somewhat concerned previously because of the one-year retroactive moratorium and its potential to have some impact on Jupiters, but that's all gone away at this time. We're going full speed ahead on trying to get Jupiters up according to its initial project schedule.

**Martin Bunge:** Thank you.

**Operator:** Thank you. Our next question is from Murray Baker of Money Smarts. Please go ahead.

**Murray Baker:** Hello, yes. I wanted to find out what initial response there has been on the site that went live on September 12th, if you have any indications on the response so far. That would be the eBet I believe.

**Andrew Rivkin:** It's too early to tell. I believe that they will be a very strong licensee. Again, they're a land-based group out of Australia. I think that they'll do very well. It's too early to tell right now. We also moved their project ahead very quickly in order to make sure that we didn't get into the moratorium in Australia which was proposed at the time didn't have any impact on eBet. So we released that application very much ahead of schedule, so it's just too early to tell right now with two weeks going by how well they're going to do. Our expectation is that they'll do a very well in that part of the world.

**Murray Baker:** And I wondered if you could comment too going into an election year on any implications that might have in terms of some of the politicking going on now with respect to U.S. legislation.

**Andrew Rivkin:** Well, I think that this Congress is about to end. I guess the initial targeted date was October the 6<sup>th</sup>, which is in five days. Our understanding is that there is a proposal to extend that to October the 9<sup>th</sup>, but the members in the U.S. are really keen to get out on the campaign trail. As you did mention, it is an election year, they've got a lot of work to do, which is related to campaigning. We think that it's very good that the Bill has not gotten..., that it failed in July and it has not moved any further forward since then. With time being so short, our expectation is that it probably will not pass this term. Obviously, anything can happen, but there are only very, very few days left and it just does not seem likely that it'll go through.

Kyl has publicly said that he will not bring the Bill back next year. Whether or not we see it again it's impossible for me to predict, but it will have to start again the process from scratch, which means that it'll have to be reintroduced in both the Senate and the House. So it effectively is a brand new Bill and it'll have to go through the whole process again. One other I think very important is that MGM/Mirage, which is the largest gaming company in the world, has now announced plans to offer a play-for-fun Internet gaming application, which to our mind would indicate that the casino lobby, the major land-based groups in Las Vegas, will not be supporting any Kyl-type Bill in the future. They were strong supporters of the Kyl/ Goodlatte Bill and making Internet gaming illegal, since we licensed our first piece of software in November 1996. So the fact that we feel, and Harrah's as well, which is another major land-based gaming group out of the United States, has also announced that they are getting into the Internet gaming for fun. Actually Harrah's has announced they're getting into Internet gaming for fun and for prizes. So we believe that with these two very large important land-based groups in the States being proactive about Internet gaming that their lobby will not be behind the Kyl or Goodlatte Bills in 2001. I think this is very, very positive for the Internet gaming industry.

**Murray Baker:** Thank you.

**Operator:** Thank you. Our next question is from Michael Cook who is also a shareholder. Please go ahead.

**Michael Cook:** Good morning, Mr. Rivkin. My questions are two-fold. Number one, what is your cash position or estimated cash position as of September 30?

**Andrew Rivkin:** It's approximately US\$60 million.

**Michael Cook:** And my second question is given the delay in the rollout of Version 4.0, what is your current estimate for fiscal 2000 earnings?

**Andrew Rivkin:** Well, our expectation is that net margins for the year we'll expect to average about 40%, so still very strong profitability. The other comment that I'd like to make is that in terms of our revenue projections for the rest of the year we've managed to have about 15% top line growth year-over-year. With licensees still starting their marketing efforts in the fourth quarter, the impact of that growth we expect to have mainly in the first quarter and in 2001. So I don't expect our growth rate to change radically in the fourth quarter year-over-year. What we are hoping to do is increase that growth rate in 2001, so increase our year-over-year top line revenue growth and hopefully bring margins back up in 2001 as well.

**Michael Cook:** Would you expect this year's earnings per share to be in the order of say US\$1.10 to \$1.15?

**Andrew Rivkin:** Again, if you were to take a look at the numbers and estimate 40% margins along with 15% top line revenue growth, I don't think you'd get to that number but again, that's as far as really I'm prepared to go in terms of talking about future projections for CryptoLogic. What I want to emphasize is that what we're doing is positioning the company right now to increase and sustain better growth rates in 2001.

**Michael Cook:** Okay. Maybe I could ask you a third question. That is, in your press release of September 29 you indicated that you had bought back about 217,600 shares of CryptoLogic since renewing the share buyback program in mid-May. Could you give us a sense of what the average cost per share was on your buyback program year to date?

**Andrew Rivkin:** Cdn\$20 Canadian is what the average cost is. We started buying back at I think about \$35 if I'm not mistaken.

And we'll continue to be aggressive in that area. Again, we think that the stock is extremely good value right now. We're trading at around 13 times. We have purchased 40% of what we're permitted to purchase in a few short months since May. So we are being aggressive and will continue to be aggressive and buy back our stock.

**Michael Cook:** Are you buying back stock this morning in the 16... well, I guess 16.10 was today's low and 19.50 was the high today, last at 18.50. I presume you'd be buying the stock at that level given your average year-to-date is 28?

**Andrew Rivkin:** Yeah, we're being very aggressive. Whether or not we've bought any back today I don't know, but we are being very aggressive and we expect to continue being aggressive. I mean if we were buying back at \$35, we're certainly going to be buying back larger quantities at \$16.

**Michael Cook:** Right. Thank you, Sir.

**Andrew Rivkin:** Thank you.

**Operator:** Thank you, Mr. Cook. Our next question is from Alex Faigel who's from IDC. Please go ahead.

**Alex Faigel:** Yes, can you talk a little bit more about the non-growth of top line revenues this year? I understand the licensee factor you've mentioned that marketing has not occurred in a fast enough fashion. It would seem that with the increased adoption of users on the Internet and just the general growth of the Internet that should have accounted for at least significant growth for you. It did for competitors unless I'm mistaken, and I'm not sure I really believe that the licensee issue is a full and fair explanation for non-top line revenue growth.

**Andrew Rivkin:** The second and third quarters are traditionally down quarters. We've been doing this now for four years. We have not really managed to have revenue increases in the second and third quarters since the very beginning. I think it was perhaps ambitious of us to consider having positive revenue growth in those quarters but we thought with many licensees marketing Version 4.0 in the third quarter that there would be some impact. Unfortunately, that didn't happen.

What we now expect is for that revenue growth to come in more in line in the first quarter of 2001. The fourth and first quarters for the Internet gaming industry are traditionally very good quarters. If you want to take a look at growth in the industry, if you take a look at absolute growth, some of our competitors are showing better growth rates. If you take a look at absolute growth even in the second and third quarters, you'll see that our competitors are showing poor performance for those two quarters as well.

In terms of absolute growth we still are growing much larger dollar figures than almost every one of our competitors, in fact probably every one of our competitors. We're growing in terms of dollars at a greater rate, but when you start with a very small revenue base, I mean some of our competitors are doing \$1 million a quarter or something like that. When you start with a very small revenue base, it's not that difficult to achieve 20, 25, 30% growth. It's difficult to do that on a base of \$9 million.

So I think that in terms of our position in the industry, we're still in a very, very strong position.

We've got the best licensees. Many of those licensees that I consider to be the top licensees in the industry were signed this year and are just really commencing their operations. I think that will lead to a successful 2001 and to us continuing to be the leader in the Internet gaming industry as we go forward.

**Alex Faigel:** Okay. I appreciate the answer. I have just one more question if possible. Of new customers in the industry, do you have any information as to what percentage market share in that acquisition you achieve versus your competitors?

**Andrew Rivkin:** No. I mean there's a lot of activity in the Internet gaming industry obviously. I don't think that anybody has gotten any of the quality licensees like we have with the William Hill relationship, Jupiters, eBet, Casino Sur. All those licensees are brand name and land-based licensees. We've seen from William Hill results that it is a very important type of licensee for the company, for the industry going forward. Our strategy is to just acquire those licensees and I think the results of our success in acquiring these types of licensees in 2000 will be demonstrated over the course of the next number of years. From looking at our early results, we're comfortable with our long-term strategy that we adopted in 1999, which was to go after only the major land-based gaming groups. We're satisfied that we're implementing that strategy. We strongly believe that that's going to lead to us continuing to be the leader in Internet gaming in the future.

**Alex Faigel:** I agree and I do believe you are in that position today and will remain that way. May I ask you why you have such a big push towards an Ecash system that seems like it's in line with your core competencies and your technology at the same time? Why divert any focus away from your industry? I mean why not just stick to dominating the transactions on the gaming end?

**Andrew Rivkin:** That's a good question. We do have a product in the Ecash market, which we believe has some unique functionality which will be attractive to people who want to do general Ecash transactions on the Internet. At the same time, we're very strong believers in Internet gaming, we're very bullish on the industry.

I don't think that we've had one decision really whether it's been in Australia or been in the U.S. going against us. We've really in five years never been more excited about the prospects for Internet gaming.

What we are doing is trying to put ourselves in a position where we are able to launch this Ecash application and company without diverting any attention to Internet gaming because we're strong believers in the industry. We want CryptoLogic to be the leader in Internet gaming. We are the leader and will continue to be the leader throughout 2001 and beyond.

We have hired separate senior professional management and they're really responsible for bringing the Ecash application to market. So it's really not diverting any attention from the guys who are at CryptoLogic who are focused on the Internet gaming industry. I think that we can add some shareholder value there at some point in the future but we'll do that without being distracted at all because we've never been as excited about the Internet gaming industry as we are today.

**Operator:** Thank you, Mr. Faigel. Our next question comes from Richard Whitman from Palisade Capital. Please go ahead.

**Richard Whitman:** We dialed in before 11:00 and we didn't get connected till 10 after 11:00 and you were on the Q&A. So we missed the company's presentation. So if I'm asking information that's already been divulged I apologize but we didn't get connected. Andrew, when did you first realize that your quarter was going to come up short on the revenue side because this didn't come up with any conversations that I had with the company?

**Andrew Rivkin:** We had expectations that our licensees would pick up and start marketing in the third quarter. We really recognized that we were going to be short really in the second week of September.

**Richard Whitman:** Okay. Do you have any anticipated acquisition activity that could occur in the next year?

**Andrew Rivkin:** Certainly there's a lot of activity in the industry. We have looked at a number of companies in the industry. We believe that we will be in a position to leverage our cash inside the Internet gaming industry sometime this year or certainly next year. We've just hired a Vice President of Business Development whose job is to spend all his time and attention on looking at those kinds of opportunities. So I think we continue to be in a better position to do types of acquisitions inside the Internet gaming industry, as a result of our cash position.

**Richard Whitman:** Okay. Also, if you look forward about a year, what would you anticipate your revenue mix would be U.S. versus the rest of the world from where it is now?

**Andrew Rivkin:** I think that's impossible for really anybody to predict. I think that it's gone down throughout 2000. It was going down in 1999. We expect that it'll continue to go down. We did mention that we've got three new international licensees which were signed in the third quarter. Two of them, their software was delivered and they're up and running in the third quarter so I think that those international licensees will continue to help us bring our mix more international. William Hill continues to grow so they'll help add to that mix as well. If you want, you are able to call back in after this call is done and you can hear the call from the very beginning as well.

**Richard Whitman:** Okay. Do I need any special code for that?

**Andrew Rivkin:** I think it's in the press release.

**Nancy Chan-Palmateer:** Actually, Richard -- it's Nancy -- it's in the advisory, but I can call you with that number.

**Richard Whitman:** Very good. Thank you.

**Operator:** Thank you. Our next question is from Arthur Waldmann who's a private investor. Please go ahead.

**Arthur Waldmann:** Yes, I have a few questions for you as usual. When you say that a company is going live, does that mean that they're now gambling for real money or just that they can go into the casino and play like in the initial stages?

**Andrew Rivkin:** No, live means they can gamble for real money. So Casino Sur is live. You're able to download that application and play for real money.

**Arthur Waldmann:** Okay. Are there limits on what they can play like there used to be?

**Andrew Rivkin:** There are a number of limits which have been established by the company and by our licensees to ensure that there's no abuse of this Internet gaming software.

**Arthur Waldmann:** It varies whichever company is running it?

**Andrew Rivkin:** It varies based on the licensees. There are overall guidelines provided by CryptoLogic. There are separate limits for Ecash and for the gaming technology. The company has done a very good job in ensuring that we can process these transactions safely with very low fraud and at the same time avoid the kind of abuse that you can have with gambling. We do this by just making sure that we're very vigilant and monitor what our licensees are doing and they're monitoring their customers to make sure that people aren't abusing the systems. Our efforts in Australia are strengthening our ability to do that kind of monitoring.

**Arthur Waldmann:** I've been hearing that this Ecash program is going to be in full swing now for years. Do you have any idea when it will be?

**Andrew Rivkin:** We're right now in the midst of a strategic round of financing. It's very hard to say. We're certainly not going to be releasing the application until that's completed. It's hard to say when we're going to be done. So it's very difficult for me right now to give you guidance in terms of when the application is going to be out. As I said, we're very bullish on the Internet gaming industry. We have hired separate senior professional management for Ecash so they're able to focus 100% of their time and attention on getting that product to market as quickly as possible.

**Arthur Waldmann:** Didn't you buy some company to make your appearance even more credible or something?

**Andrew Rivkin:** No.

**Arthur Waldmann:** Your company... bought something in California?

**Andrew Rivkin:** We made an investment in an e-commerce company in California, that's right. Based on the results that we've seen from that company that was a very good investment. We had made an investment in another company or acquired a company called GamesMania, which we sold for about six or eight times what we paid for it. As I mentioned, we have just hired a Vice President of Business Development. We believe that we'll be in the position either this year or next year to leverage some of that cash that we have inside the Internet gaming industry as well.

**Arthur Waldmann:** In talking anytime I speak to a broker about your stock they say that the biggest problem that you have in it not going up is that you don't have anybody pushing it. Are you going to make any plans to get a firm to push the company?

**Andrew Rivkin:** We've increased our analyst coverage I believe from one, which was where we were probably at the beginning of 2000 and we now have five analysts covering CryptoLogic, three in Canada and two in the States. So I think we've done a very good job of increasing coverage. We're going out on another roadshow. We did one in June. This week we're meeting new institutions and we're scheduling more in New York and the West Coast in the near future as well. One of the other things that we're working on is improving coverage in Europe where it seems that the Internet gaming industry is getting better multiples than it is in North America. So I think in respect to investor relations and research coverage we've done a very good job over the last year.

**Arthur Waldmann:** Okay. Your net has dropped the last couple of quarters. Is that going to be a permanent thing or is that just temporary?

**Andrew Rivkin:** Well, I think it's temporary. We've made a number of investments, we've increased our infrastructure, we've positioned the company to do business with the major land-based gaming groups as we said we would, and that's cost a lot of dollars in this year. I think that it'll pay off in 2001 and beyond and help us to maintain our position as the leader in the gaming industry. Thanks for your questions and if you have any further questions please feel free to give me a call, Arthur.

**Operator:** Thank you. Our next question is from Orin Hirschman from Adam Smith & Company. Please go ahead.

**Orin Hirschman:** Hi. Can you indicate in general when you happen to release and in particular if this will be any different in terms of what the timeframe is until you begin to re-accelerate on the revenue side? And can you also talk about little... you

mentioned some of the major U.S. gaming companies beginning to do play-for-fun and I guess with the eye toward eventually going into the industry. Have you been talking to any of them?

**Andrew Rivkin:** We have had relationships with a number of the U.S. gaming companies in the past. We are re-energizing those relationships. We're hoping to, when the times comes, that they get into the Internet gaming business proper and are actually doing real money wagering, which is probably not for a number of years. I mean this is just initial positioning. I think they're starting to get ready but I don't think they're going to be in the Internet gaming industry in 2001. We are re-energizing those relationships going down and talking to people who we've had good relationships in the past and hopefully trying to make sure that we stay on their radar screen. That's what we're trying to do right now. I'm not sure that we're in a position to really do any business with any of the major land-based gaming groups in the U.S. until things change a little bit down there, but certainly we're keeping them up to date on how we're doing and making sure we're still on their radar screen.

**Orin Hirschman:** You said things have to change. Can you just elaborate a bit more as to what would have to change?

**Andrew Rivkin:** Well, I don't think with us and our licensees actually accepting wagers and William Hill accepts wagers out of the U.S., I don't think with those kinds of things going on we would be able in a position to have a relationship with a U.S.-based land-based gaming group today. So until the legislative environment changes, what we're doing is making sure that we stay on their radar screen.

**Orin Hirschman:** Okay. And again just the second question was in terms of the typical ramp-up and should this be any different this time around. You indicated some progress in Q4, but how long does it really take to get the guys up and going?

**Andrew Rivkin:** Well, the unfortunate thing is we're not in control of the marketing and the licensees are responsible for the marketing. We were hopeful that by delivering the product to our two major licensees at the end of the second quarter that we would have them marketing those applications in the third quarter and there would be some demonstrable returns in the third quarter, but that's not the way it was. InterCasino started marketing in August. William Hill is not marketing Version 4.0 yet, although they've re-energized their marketing for Version 3. I think that in the fourth quarter we will have all our major licensees including William Hill, the Sands, Omni, InterCasino marketing Version 4.0 and the result will be a good first quarter.

**Orin Hirschman:** Okay. Thank you.

**Operator:** Thank you, Mr. Hirschman. Our next question is from James Cappello from Sidoti & Company. Please go ahead.

**James Cappello:** Good morning, folks. A couple of questions. Regarding the Version 4.0 and Casino Sur, eBet, William Hill, InterCasino, how about Omni and Sands? Are they enabled with that version yet?

**Andrew Rivkin:** No. It's been delivered to the Sands. I believe they'll be putting it up in October and marketing for Omni and the Sands will really start in the fourth quarter. So their results are really going to be demonstrated in the first quarter. That's one of the reasons why we're suggesting that by the time we get everybody up and it'll be in the fourth quarter but the returns won't be demonstrated until the first quarter.

**James Cappello:** Okay. So the Sands you delivered it. Did you deliver it to Omni?

**Andrew Rivkin:** I'm not sure if it's been delivered to Omni yet but it will be. All the applications will be delivered in October but what we've seen at the end of the second quarter and the beginning of the third quarter is just because we deliver the applications doesn't mean licensees are going to start their marketing campaigns immediately upon delivery.

**James Cappello:** Right, yeah. I believe there are the marketing campaigns and then the time it takes to get sticky. Also, with the promotions, I know InterCasino is going to have another CD mailer. I know William Hill will have one as well. How about Sands and Omni? Do you have any sense of how large their campaigns are going to be?

**Andrew Rivkin:** We've got a sense that everybody will be in a position to start really marketing 100% capacity in the fourth quarter. In terms of how many they're going to be sending out, it will be the same as what they did for Version 3.0. So it's sort of a full-scale marketing campaign in line. Each licensee will do in line with how they released their Version 3.0 product. We expect that everybody will be in a position to do that inside the fourth quarter and that will lead to results being generated in the first quarter.

**James Cappello:** Okay. And in terms of what happened with Version 3.0 in terms of the marketing, can you just let me know how large those campaigns were for Sands and Omni?

**Andrew Rivkin:** I can certainly get you that information but I don't have it on the top of my head. I believe there was a couple hundred thousand probably.

**James Cappello:** Okay.

**Andrew Rivkin:** Two or 300,000. I'm guessing to a certain degree but I certainly can get that information for you.

**James Cappello:** Thanks. And do you also know when Harrah's made that announcement that they're doing the play for fun. I knew MGM announced it, I didn't see the Harrah's announcement.

**Andrew Rivkin:** It was in August. They announced that they were going to be doing play for prizes.

So I think that both those events are significant. It's not just MGM, they're the biggest in the industry. To have Harrah's going and they're pushing the envelope a little bit further with play for prizes. It certainly indicates to me that their lobby will not be in favor of the Kyl Bill next year.

**James Cappello:** Okay. And one last question. In terms of the pipeline for new licensees now, I know you guys signed an unprecedented amount in 3Q. How's the pipeline looking now in terms of relationships and closing on those relationships?

**Andrew Rivkin:** I think it's looking very good. We had been telling everybody probably since the first quarter, we've positioned the company to do business with the major land-based gaming groups. We're really the only company in a position to capture those groups. So as they enter the market, we believe that they'll be choosing CryptoLogic. We're hoping to sign another one or two in 2000 and as many get into the industry in 2001 to capture the lion share of those relationships as we have done in 2000. That's what we think is strategically important and that's what we believe we've executed on as well.

**Operator:** Thank you, Mr. Cappello. Our next question is from Bob Goodwin of Jones Gable. Please go ahead.

**Bob Goodwin:** Hello. When you are launching a casino with a new licensee there are a variety of costs, programming and customization. Can you give me an idea of how that is split between CryptoLogic and the licensee and has there been any change in that split or increase in the cost of doing a launch?

**Andrew Rivkin:** The majority of the expenses related to getting a piece of Internet gaming software to market are borne by CryptoLogic, so we are responsible for the technology. That's our job in a relationship, and the early costs in the application are technology costs, so that's what we are paying for and those all come in before the relationship starts. In addition in 2000, we've increased our staff infrastructure to do really two things, to make sure that we never have the same kind of hiccup we had in early 2000 with Version 4.0, to make sure we can deliver more product which it's clear that we have to do. At the beginning of 2000 we had about 17 licensees, and we have... sorry...

**Nancy Chan Palmateer:** I think 15.

**Andrew Rivkin:** 15 and we have 20 today. In order to support those licensees and deliver product to them on time we've had to increase our infrastructure overall.

**Bob Goodwin:** And I'm also speaking about the custom graphics and everything that goes into making a site a branded site for your licensee. Who bears that cost?

**Andrew Rivkin:** CryptoLogic does. We're responsible for all aspects of the technology and all the up-front costs are effectively borne by CryptoLogic. So that's why in the third quarter where we signed three licensees, delivered applications to two of those licensees and are about to deliver to a third. There's pressure on our margins, but those relationships are at a minimum, five-year relationships and we'll reap the rewards as time goes by. We have to pay today but those rewards continue to flow in for many, many years to come.

**Bob Goodwin:** So the only thing you can offset is that small amount that do get up front when you sign a licensee?

**Andrew Rivkin:** Correct.

**Bob Goodwin:** Just a question on revenue growth. The revenue growth being slightly above 10%, are you tracking the revenue growth as it relates to the overall volume of transactions? I guess to put it another way, is there any slippage in terms of the profitability of the casinos due to competitive pressures? Could that be causing the slower revenue growth than expected?

**Andrew Rivkin:** Again, that's something that I don't have off the top of my head. What I can say is that we have processed more transactions. There are new types of promotions that are out there that our licensees are using that have some impact on the number of transactions we process versus revenue we derive. But the reality is it's... we said from the very beginning the revenue model that best is predictive of our future revenue is more of a subscription type model. So even though we process more transactions to earn the same amount of revenue, I don't think that that has an impact in terms of our revenue growth. What that does is it just gives the end-user more time on our systems, more enjoyment for their dollar, but I don't think that that impacts the revenue on our side.

**Bob Goodwin:** Is there a tendency towards a smaller house margin in the industry though?

**Andrew Rivkin:** Yeah, I think there is. I think that gaming in general has a tendency when it becomes competitive to provide lower margins so that it's more attractive to players. I think one of the things that is good in the Internet gaming industry is we're starting to see games that provide better returns than the land-based gaming industry and I think that that's a very good thing. We don't have the environment of the land-based casinos where you've got the smoke and the lights and the noise, but you've got more sophisticated players who are going online playing and being provided

better returns. I think that it's certainly good for us and I think it's good for the gaming industry in general.

**Bob Goodwin:** So the overall branding of your types of licensees probably helps avoid some of that slippage?

**Andrew Rivkin:** Absolutely. But I don't see that as slippage. We did process more transactions this year to earn the same amount of revenue, but we certainly don't broadcast those numbers. We don't look at the number of transactions as a good predictor of revenue. What we look at is more of a subscription model where how many live customers does our licensees have because, whether it takes a guy an hour to lose \$100 or it takes him an hour and 15 minutes to lose \$100, he tends to lose \$100 either way. The reality is even if he loses it in an hour, he doesn't tend to lose more money in the extra 15 minutes he would have been playing.

**Bob Goodwin:** Right.

**Andrew Rivkin:** So really we see the increased number of transactions just providing more entertainment to the end-user. I don't believe it's a detractor for our revenue, certainly not our long-term revenue.

**Bob Goodwin:** Now, just one last question. Looking at your forecast numbers for the third quarter, I would expect your software development costs are going to be approaching about \$5 million for the quarter, up from I think in the low \$3 millions in the first and second. So that's an increase of maybe \$1.5 million for the quarter in that particular area. Is there any component of that, dollar wise that you can say is one time?

**Andrew Rivkin:** Releasing the software to a licensee has added costs associated with it. In terms of one-time expenses in software development, they're all really one-time. When you spend a certain amount of money, you release Version 4.0 and that's it. But the reality is, we've got to have more people working on Version 5.0. We'll have more people working on Version 6.0 than Version 5.0, so we certainly don't treat our development expenses as one-time. As you know, they're all written down as they go.

We have an expectation as we grow and build infrastructure to be able to do business with larger gaming groups and to be able to support larger total revenues. We don't really have an expectation in terms of software development to decrease. Now, I mean I wouldn't look at an individual quarter. I'd look at our software development costs for the year and my expectation would be that in the following year, the software development costs would be greater, they certainly wouldn't be any less. But I mean we do have occasional periods in the third quarter where we do a lot of work and there are additional expenses in the third quarter related to how much we've produced.

**Operator:** Thank you, Mr. Goodwin. Our next question is from John Pitts of Steadfast Financial. Please go ahead.

**John Pitts:** I have a couple of parts to the question. What were the number of users at the end of September?

**Andrew Rivkin:** At the end of September we had about 585,000 registered users. Sorry, that's at the end of the second quarter. I don't have numbers for the end of the third quarter yet.

**John Pitts:** Right. It just looks like the user numbers have been growing at a year-over-year rate of above 40%. So are those numbers scrubbed for users that have zero dollars in their account or that don't play in the last three to six months or is that just the cumulative number of unique users since the inception of the company?

**Andrew Rivkin:** The number of registered users is the cumulative number of people who've registered since the beginning. That's what it is.

**John Pitts:** Right. In terms of the percentage, as I understand it, you basically get a percentage of the rake of a casino. So if InterCasino brings in \$100 of revenue how many dollars of revenue do you get currently from your licensees and how has that changed over the past year? Has it gone up or down?

**Andrew Rivkin:** It's been stable. It's been stable over the last year.

**John Pitts:** And what percent do you currently get?

**Andrew Rivkin:** That's between us and our licensee. It varies from licensee to licensee and that's not something that we disclose. But what I can say is it has been stable over the last year.

**John Pitts:** Right. Has the transactions increased like north of 40% similar to users or what has been the year-over-year growth in transactions?

**Andrew Rivkin:** That's something that I would be happy to answer if you were to call. It's not something that I have for the third quarter and it's not something that I'd know off the top of my head. I do know that the number of transactions has gone up larger than the revenue growth. It's as a result of the types of promotions our licensees are doing and also the types of games that are being offered to our licensees. I'm not sure that it's quite as high as 40%, but if you were to call we would be able to do some calculations and figure that out.

**John Pitts:** By promotion do you mean a marketing promotion? Because I thought that would be more or less the casinos' marketing expenditures and not part of your revenue...

**Andrew Rivkin:** It is but if you take a look at the games, If the licensee wants to offer European Roulette as a promotion, let's say they want to do that for a month, that

brings the game percentage down to 2.7% from 5.6%. Sorry, 5.26. So it brings the percentage down, so we have to process more transactions to get to the same revenue. So those are the examples of types of promotions that have impact on our revenue.

**John Pitts:** Right.

**Andrew Rivkin:** And as licensees go out and do that, we process more transactions to earn the same amount of revenue. As I said, I don't think that is really a good indicator of revenue on a go-forward basis, really a number of active users is the best predictor.

**John Pitts:** Okay.

**Operator:** Thank you, Mr. Pitts. Our next question comes from Terry McNeil of Scotia McLeod. Please go ahead.

**Terry McNeil:** Andrew, just with respect to the seasonality of revenues that you talked about earlier, I'm curious. Looking at last year's growth for the third quarter CryptoLogic experienced an increase of about 57%. This year it was 12% or 18%. How do you reconcile that?

**Andrew Rivkin:** You're talking about year-over-year growth?

**Terry McNeil:** Quarter-over-quarter.

**Andrew Rivkin:** No, the third quarter last year was flat with the second quarter last year.

**Terry McNeil:** Well, I'm doing a comparison to 1998.

**Andrew Rivkin:** So if you're talking about year-over-year, 1998 versus 1999. You're obviously talking about a much smaller revenue base. Harvey is just picking up the numbers now. We had \$5 million in the third quarter of 1998 and that...

**Terry McNeil:** \$8 million in '99.

**Andrew Rivkin:** Yeah. \$8 million in 1999. That was really the time when Version 3.0 was released. We had strong growth associated with the release of Version 3.0 of the software. We didn't have that in the third quarter of 2000. Although we grew year-over-year about \$1 million, that was just ongoing ordinary core growth, not version-release-related growth which we had in the previous year.

**Terry McNeil:** Have the new licensees had a fairly significant impact on the overall revenue line or are we seeing some stabilization with respect to revenues from the old base of licensees?

**Andrew Rivkin:** When you say new licensees what are you...

**Terry McNeil:** Like William Hill.

**Andrew Rivkin:** So the question is whether William Hill has had an impact on top line. In the third quarter, they have had an impact in top line revenue. The others are too new and too small to really look at this early on in their life cycle.

**Terry McNeil:** What about the licensees that were on board prior to William Hill? Are they still making a fairly sizeable contribution or have their revenues basically flattened out?

**Andrew Rivkin:** It depends on the licensee. At the beginning of this year, there were 15 licensees so I mean it varies from licensee to licensee. What I can say is there's a large variance between the existing licensees in terms of whether they're growing or they're flat or whatever.

**Terry McNeil:** Okay, thank you.

**Operator:** Thank you, Mr. McNeil. Our next question is from Andre Edelbrock who's also a private investor. Please go ahead.

**Andre Edelbrock:** I'm just wondering if CryptoLogic's actively pursuing relationships with the U.S. land-based casinos now that they're starting to move online, the sort of play for fun versions or have any of the U.S. land-based casinos contacted CryptoLogic to provide the solution?

**Andrew Rivkin:** I think that we answered that question before. What we did say was that we don't feel that we're in a position to do business with them today. We're talking to the U.S. groups to make sure we stay on their radar screen and are in a good position to do business with them when they're getting into the Internet gaming industry for real.

With the environment in the U.S. with the regulatory and legislative issues that exist today, it would be very difficult, if not impossible, for us to create relationships as it stands right now, but we are again staying on the radar screen. We're hopeful that when the environment changes and we're starting to see the first little bit of that change, but they've got a long way to go. When it changes, we'll be the right partner for them and we're putting ourselves in that position from an infrastructure perspective and doing business with their contemporaries on an international basis.

**Andre Edelbrock:** Okay, thank you.

**Operator:** Thank you. Our next question is from John Britton of Select Equity. Please go ahead.

**John Britton:** Yeah, hi. I had a couple of follow-up questions. The \$60-million cash position you mentioned, is that Canadian?

**Andrew Rivkin:** That's U.S.

**John Britton:** That's U.S.? That's a very big sequential increase. Why is that up so much?

**Andrew Rivkin:** It's actually the same. I think the confusion might be that's total cash number.

**Harvey Solursh:** Total cash

**Andrew Rivkin:** Restricted cash hasn't changed since...

**John Britton:** Oh, okay. The revenue line, is the interest in other component of that still around US\$800,000?

**Andrew Rivkin:** Approximately, yes.

**John Britton:** That's US\$8.2 million of gambling or of gaming revenue?

**Andrew Rivkin:** Approximately.

**John Britton:** And you mentioned that the development budget was 50% of total revenue so that would be US\$4.5 million?

**Andrew Rivkin:** Approximately.

**John Britton:** Just to get to the US\$2.7 million of net numbers, it seems like the SG&A would have to be about US\$1.4 million. Is that about right?

**Harvey Solursh:** There's income taxes also, John.

**John Britton:** Right. No, I understand. Income tax by this would be about 10... as much... if your tax rate is still 10% it would be about US\$300,000.

**Harvey Solursh:** No, it's a little higher. The G&A with the finance and amortization is approximately US\$950,000. And taxes are roughly a half a million, a little more.

**John Britton:** Is the tax rate up?

**Harvey Solursh:** Yes.

**John Britton:** And will it be up going forward?

**Harvey Solursh:** No, we expect it to come down going forward.

**John Britton:** So what's the go-forward rate there?

**Harvey Solursh:** On a go-forward basis we should be about 10 to 12%.

**John Britton:** Okay. So the dollar development number, US\$4.5 million, should be up sequentially but not by much or should that be flat?

**Harvey Solursh:** Well, it's hard to tell at this point in time, John. You know, we don't expect it to be higher than that for the fourth quarter. We actually expect that it's possible to be a little bit less than that.

**John Britton:** Okay. Thank you.

**Harvey Solursh:** You're welcome.

**Operator:** Thank you. Our next question is a follow-up question from Mr. James Cappello. Please go ahead.

**James Cappello:** Sorry, guys, I forgot one last thing. With increasing the infrastructure, i.e. developers, how many developers did you have on both the Ecash and casino-related side at the end of 2Q and how many do you have now?

**Andrew Rivkin:** Just give us a call, we'll provide you with that number. I just don't have it off the top of my head.

**James Cappello:** Okay, Andrew. Thanks.

**Operator:** Thank you, Mr. Cappello. And at this time, Mr. Rivkin, we have no further questions from the phone lines, Sir.

**Andrew Rivkin:** That's great. I'd like to thank everybody for joining us today and we look forward to getting our full release out very soon and having a conference call after that as well. Thanks very much.