

CRYPTOLOGIC LTD
Form 6-K
April 03, 2009
FORM 6-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of **March 2009**

Commission File Number **000-30224**

CRYPTOLOGIC LIMITED
Marine House, 3rd Floor

Clanwilliam Place

Dublin 2, Ireland

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F....x..... Form 40-F...o...

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ___

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ___

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CRYPTOLOGIC LIMITED

Date: March 31, 2009

Stephen Taylor

Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Annual Information Form of the Company for the year ended December 31, 2008
99.2	Management's Discussion and Analysis
99.3	Annual Financial Statements
99.4	Certification of Annual Filings by CEO
99.5	Certification of Annual Filings by CFO

ITEM 1: INTRODUCTION

All dollar amounts in this Annual Information Form are in United States dollars, except where indicated otherwise. Effective January 1, 1998, CryptoLogic Inc.'s reporting currency is in United States dollars. Some figures and percentages may not total exactly due to rounding.

Certain general information contained in this Annual Information Form concerning the industry in which CryptoLogic Limited and its Subsidiaries (the consolidated operations of which will be referred to collectively as "we", "our", the "Company" or "CryptoLogic," unless otherwise specifically noted) operates has been obtained from publicly available information from third party sources. The Company has not verified the accuracy or completeness of any information contained in such publicly available information. In addition, the Company has not determined if there has been any omission by any such third party to disclose any facts, information or events which may have occurred prior to or subsequent to the date as of which any such information contained in such publicly available information has been furnished or which may affect the significance or accuracy of any information contained in any such information and summarized herein.

Certain of the statements contained in this Annual Information Form may contain forward-looking statements and forward-looking information within the meaning of applicable law, include the *Securities Act* (Ontario). Statements regarding the Company's objectives, goals, strategies, beliefs, intentions, plans, estimates and outlook, future operations, future financial position, future revenues and projected costs are forward-looking statements or contain forward-looking information. Words such as "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are used to identify forward-looking statements or information.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties. Should one or more of these risks materialize, or should assumptions underlying the forward-looking statements or information prove incorrect, actual results may vary significantly from what management currently foresees. Accordingly, investors should exercise caution when considering any forward-looking statements or information herein and undue reliance should not be placed on such statements or information. Certain material factors or assumptions are applied in making forward-looking statements, including, but not limited to, factors and assumptions regarding government regulation, internet viability and system infrastructure and reliability, market demand, internet security, reliance on internet service providers, competition, dependence on top licensees, chargebacks, risks inherent in doing business internationally, foreign exchange fluctuations, litigation, the Company's ability to protect its proprietary technology, reliance on key employees, management's ability develop and manage growth, ability to integrate acquired businesses, stock volatility and liquidity. Investors are cautioned that the foregoing list of important factors that may affect future results is not exhaustive. When relying on forward-looking statements or information to make decisions with respect to the Company, investors should carefully consider the foregoing factors and other uncertainties and potential events. The Company undertakes no obligation to update or revise any forward-looking statement or information, except as required by applicable law.

ITEM 2: CORPORATE STRUCTURE

Name, Address and Incorporation

CryptoLogic Inc. was formed by articles of amalgamation (the "Amalgamation") under the *Business Corporations Act* (Ontario) effective March 7, 1996 pursuant to an amalgamation agreement dated January 19, 1996 between Inter.tain.net Inc., a private corporation, and Biroco Kirkland Mines Limited. Immediately prior to the Amalgamation, Biroco Kirkland Mines Limited did not carry on active operations.

On June 28, 1996, the Company changed its name from “Inter.tain.net Inc.” to “CryptoLogic Inc.”

Pursuant to a business reorganization implemented by way of an Ontario Superior Court of Justice court approved plan of arrangement (the “Arrangement”) and approved by the shareholders on May 24, 2007, CryptoLogic Limited acquired control over all of the issued and outstanding common shares of CryptoLogic Inc., an Ontario company, which through the Arrangement became an indirect subsidiary of CryptoLogic Limited. As part of the Arrangement, the Company issued either an equivalent amount of CryptoLogic Limited common shares or, in the case of taxable Canadian residents, exchangeable shares (“Exchangeable Shares”) of CryptoLogic Exchange Corporation (“CEC”), an indirect subsidiary of CryptoLogic Limited. The CEC shares are, as nearly as practicable, the economic equivalent of CryptoLogic Limited shares. The holders of CEC shares participate equally in voting and dividends with the shareholders of CryptoLogic Limited. No additional shares of CEC have been or will be issued. CryptoLogic’s common shares trade on the Toronto Stock Exchange (symbol: CRY), NASDAQ Global Select Market (symbol: CRYP) and the London Stock Exchange’s Main Market (symbol: CRP). CEC shares trade on the Toronto Stock Exchange (symbol: CXY). Particulars of the Arrangement are found in the Information Circular dated April 23, 2007, which can be viewed on the SEDAR website www.sedar.com.

CryptoLogic Limited is incorporated under the laws of Guernsey but with its corporate headquarters in Dublin, Ireland where it operates and is resident for tax purposes. The Company’s registered office is located at 1 Le Marchant Street, St. Peter Port, Guernsey, Channel Islands, GY1 4HP. The Company’s head office is located at Marine House, Clanwilliam Place, Dublin 2, Ireland.

Intercorporate Relationships

The organizational structure of the Company as of December 31, 2008 is set forth below. CryptoLogic Limited, a company incorporated under the laws of Guernsey with its corporate headquarters in Dublin, Ireland, provides executive functions to the corporate group. CryptoLogic Inc., the software group located in Canada, provides software development, upgrades and technical support for WagerLogic Limited (“WagerLogic”). Located in Cyprus, Malta and the United Kingdom (“U.K.”), the WagerLogic group of companies provides software hosting and licensing for our Internet gaming software, e-cash systems and support, customer support, marketing support and other services to third-party gaming operators around the world. Our ECash Direct subsidiary provides e-cash systems and support that enables licensees’ players to deposit and withdraw funds through a wide range of payment options. Our 24/7 customer call centre support helps our licensees’ players with technical questions or assistance with the gaming software and e-cash accounts. Our AdsDotCom subsidiary offers marketing services to licensees. Our CryptoLogic Asia subsidiary is responsible for advancing the Company’s strategy and business development in Asia.

ITEM 3: GENERAL DEVELOPMENT OF THE BUSINESS

Founded in 1995, CryptoLogic Inc., now succeeded by CryptoLogic Limited, is a pioneer and leading software developer and services provider to the global Internet gaming market. One of the i-gaming software industry's first publicly traded companies, CryptoLogic is headquartered in Dublin, Ireland, with software development operations in Toronto, Canada. Our subsidiary, WagerLogic, through its offices in Cyprus, Malta and the U.K., provides software hosting and licensing, e-cash systems and support, customer support and marketing support services for our Internet gaming software to third-party gaming operators.

In 2008, CryptoLogic's core business was the provision of complete Internet casino and poker solutions for licensees. This includes:

1. A broad, turn-key Internet-based game suite featuring:
 - more than 314 download and non-download casino table and slot games;
 - multi-languages (English, Spanish, Greek, Japanese, Chinese, French, German, Italian);
 - multi-currencies (U.S. dollars, British pounds and euro);
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- multi-platforms (download, non-download (Java and Flash), wireless); and
- multi-player bingo;
- 2. E-cash systems and support for player deposits and withdrawals;
- 3. Business intelligence and data analysis tools to assist licensees in their marketing efforts;
- 4. Licensee support through WagerLogic's 24/7 multi-language customer support; and
- 5. Marketing support services, to assist licensees in developing and executing strategies for marketing their online gaming businesses.

In 2008, the Company launched a new line of business with significant revenue potential by deciding to license some of its most successful and profitable branded games to major Internet gaming operators, distinct from the sale of the broader Internet casino solution. Late in 2008, the Company decided to pursue a strategic partnership with Boss Media, a subsidiary of GTECH, whereby in the first quarter of 2009 the Company ceased to operate a poker network and its poker customers merged with Boss Media's International Poker Network. The strategic partnership with Boss Media is in line with CryptoLogic's growth strategy to focus on its branded games and Internet Casino business and is expected, together with other initiatives, to generate significant cost savings for the Company. See "Three-Year History – New Strategy for Growth" below.

WagerLogic licenses CryptoLogic's software products and services to an international client base ("licensees" or "customers"), while retaining ownership and control of the software. As at December 31, 2008, the Company had 14 licensees (2 of these licensees left in February 2009 as opposed to integrating their poker room operations into the poker operations of Boss Media, a subsidiary of GTECH).

Our licensees operate under government authority where their Internet business subsidiaries are domiciled. In August 2007, the Company moved its licensees' primary Internet gaming jurisdiction to Malta. All technical requirements set out by the licensing authority in Malta were fulfilled in 2008 in order to maintain the license in good standing. The license in Malta facilitates access to the European and U.K. markets by the Company's licensees from within the E.U., which are major markets for the licensees and consequently for CryptoLogic.

CryptoLogic added 10 new customers for either hosted casinos or individual games in 2008. These include:

- 888 Holdings (Launched July 2008)
- Kurastica
- Opoker.com (Launched October 2008)
- PartyGaming
- BskyB Group plc
- Betjacks
- Blackjack Heaven Operation (Launched October 2008)
- Everest (Launched October 2008)

We also operate a gaming portal business under two brands: casino.co.uk and WinnerOnLine. These portals earn advertising revenue from gaming operators, and direct traffic to operator sites as well as those owned by the Company's licensees – providing a well-known marketing channel and an attractive player acquisition tool for licensees.

Substantially all of our revenue is of a recurring nature. Licensees pay an ongoing fee over the contract term for the licensing of our software and services, calculated as a percentage of each licensee's level of activity. In 2008, 9.1% (2007: 6.4%) of our revenue came from other sources,

including software customization, and advertising and marketing services derived from our portal business.

Historically, CryptoLogic's revenue has been seasonal with slower sales in the summer months (our second and third quarters), when players tend to spend less time indoors and at their computers. Typically, our first and fourth quarters (during the winter and fall seasons) are our strongest revenue periods.

Three-Year History

Overview

The global online gaming industry including the United States ("U.S.") grew from \$9.0 billion to approximately \$16.5 billion in wagers during the period between 2004 and 2008 (source: Global Betting and Gaming Consultants, March 2008 ("GBGC")). On October 13, 2006, the U.S. passed the Unlawful Internet Gambling Enforcement Act (UIGEA), which effectively banned online gaming within the U.S. by prohibiting the processing of related financial transactions.

At the time the UIGEA was passed, the entire U.S. market was estimated to represent approximately 50% of the global online gaming market (source: GBGC). However, the Internet casino and Internet poker markets outside the U.S., the core areas of our business, are expected to continue to grow. The non-U.S. online casino market is estimated to be worth \$2.9 billion, and this market is expected to grow to approximately \$4.0 billion by 2012. The online poker market outside the U.S. was estimated to be worth \$2.1 billion at the end of 2008 and is expected to increase to \$3.1 billion by 2012 (source: GBGC).

Anticipating the legislative risk in the U.S., CryptoLogic had migrated most of its revenue base to Europe by 2006. In 2001, only 30% of licensees' revenue came from players outside the U.S.; by October 2006, 70% of licensees' revenue was derived from non- U.S. sources due to the Company's global diversification strategy. Nonetheless, the enactment of UIGEA significantly affected the Company's revenue and earnings in 2007 and 2008.

In 2007, CryptoLogic announced a licensing contract with Holland Casino, the Netherlands' government-licensed casino operator. The agreement was subject to ratification, and in April 2008, the Dutch parliament narrowly voted to prevent Holland Casino from establishing an Internet gaming site. While CryptoLogic had hoped to benefit from the establishment of such a site, the Company was fully compensated for its development work.

Despite the foregoing legislative developments, because our licensees have significant exposure to the international market, we believe that we remain in a strong competitive position. As evidence of this strength, the Company has signed 10 new customers for either hosted casinos or individual games in 2008. In addition, cost reduction measures have positioned the Company for a return to profitability in 2009.

On February 27, 2008, CryptoLogic announced the appointment of Mr. Brian Hadfield as the Company's President and Chief Executive Officer, replacing Mr. Javaid Aziz. Under Mr. Hadfield's leadership, CryptoLogic has embarked on a new growth strategy and restructuring program, designed to return the Company to profitability. Further details of the new growth strategy and restructuring program are discussed below.

Key markets: The Landscape

International markets such as the U.K. and Continental Europe have become a core focus for CryptoLogic over the past three years. Our international strategy focuses on investing in and capitalizing on our relationships with leading brand-name licensees in jurisdictions that are embracing Internet gaming and represent attractive growth potential.

In enabling the regulation of Internet gaming for the first time in the U.K. through the Gambling Act 2005, the door is open to a large, credible and stable industry in a regulated and licensed environment.

Elsewhere in Europe, the legislative environment continues to evolve, with some countries showing signs of following the U.K.'s lead while others are moving to protect state gambling monopolies.

The E.U. Commission has commenced infringement proceedings against some member states that are taking a protectionist approach— a development that the Company believes is favourable to the industry in Europe. CryptoLogic has long advocated a regulatory approach to foster a transparent, credible and growing online gaming industry. We have sought and achieved certification of our software in strictly regulated jurisdictions. It is through this process that we maintain our reputation as the pioneer in online gaming and a trusted provider for licensees and their customers.

CryptoLogic has also made some strategic, long-term investments into Asia. In 2007 and 2008, we acquired minority interests in several Asian game developers as our initial entry into this region, including an investment in South Korea's Mobilebus Inc., one of Asia's fastest growing mobile and PC game developers and publishers. Additionally, the Company made a strategic investment in Mahjong Time, an innovative provider of online Mahjong software and turnkey solutions and agreed to invest up to \$2.5 million for a significant minority equity stake. Industry experts expect Asia to be the fastest growing and ultimately the largest online gaming market in the world. China alone has over 135 million Internet users, making it the world's second largest user group after the United States. In addition, China has the world's largest mobile phone market with more than 400 million subscribers, many of whom are expected to switch to the high-speed 3G networks over the next few years, providing a platform for substantial growth for game and content developers.

While CryptoLogic believes that Asia will be the next major Internet gaming market, there are regional legislative issues and limited payment forms to support the industry today. Accordingly, CryptoLogic does not expect Asia to be a major revenue contributor in the near term.

The online gaming market is dominated by several major operators. Competition for players and market position is intensifying. The industry is undergoing consolidation as operators increase market share through acquisition. We continue to operate in a challenging business environment faced with regulatory uncertainty including ongoing efforts aimed at banning or restricting online gaming.

As the industry becomes increasingly competitive and sophisticated, we must offer a strong value proposition to our customers to help them respond to players, who are demanding more choice and entertainment value. Accordingly, in 2008 CryptoLogic made the strategic decision to focus its efforts on its successful Internet casino business, and on development and licensing of branded games to leading gaming and entertainment brands.

CryptoLogic significantly increased its customer acquisition activities in 2008, resulting in 10 new contracts for both hosted Internet casinos and the licensing of branded games. The "build-once-license-often" model offers excellent revenue potential at low cost and will be a major driver of growth. New customers include 888.com, PartyGaming, Everest, SkyBet (part of BskyB Group), The Poker Channel and Betjacks. These agreements offer significant revenue potential for 2009 and beyond.

Software Development

In order to remain a leader in Internet casino software, CryptoLogic continues to invest significantly in product research and development and service enhancements. Since 2006, the Company has introduced more than 314 slot and casino table games and brought many famous entertainment brands to the Internet casino space. Highlights include unique, first-to-market offerings such as:

- The Internet's first and only multi-currency jackpot video slot games featuring popular Marvel action characters such as *The Incredible Hulk*, *Daredevil*, *X-Men*, *Thor*, *Elektra*, *Ghost Rider*, *Spider-Man* and *The Fantastic Four*, and, more recently, *Sub Mariner*. All these brands have been exclusively licensed for CryptoLogic-developed games;
- The world's first and only play-for-real slot versions of highly popular online casual games, such as *Cubi*TM, an award-winning, three-dimensional puzzle game, and *Bejeweled*, a gem-matching game—both among the most played games on AOL, MSN and other major portals—and most recently, *Jewel Quest*[®], a popular puzzle-match game;
- Our own patented games including the progressive jackpot slot, *Millionaires Club*TM, which awarded the two largest online jackpots in history; and a new patent-pending game, *Multi-Hand Video Blackjack*, which brings together blackjack and video poker;
- Our own *Texas Hold'em Bonus Poker*, which is the first-ever online version of the widely popular land-based casino game and combines the huge popularity of poker with the excitement of a casino card game; and
- The Internet's first "Fruit Machines", a tradition in U.K. pubs.
- The first-ever slot version of the world-famous Street Fighter(R) II arcade game.
- New games, coming in 2009, based on world-famous DC Comics characters such as Superman, Batman, Wonder Woman and others.

In November 2008, the Company announced the migration of its hosted poker business by entering into a strategic partnership with GTECH Corporation's International Poker Network. The move gives CryptoLogic's poker licensees and players access to a larger network with a combined average of 15,000 active players – at significantly lower cost to CryptoLogic.

To help our licensees understand, respond to and market to their players in a personalized fashion, we have also enhanced our back-office, decision-management and contact centre tools. We have continued to expand our payment solutions including new e-check/debit methods (e.g. *Click2Pay*, *EverywhereMoney*, *PaySafe*TM), added a new European processor and expanded fraud controls (e.g., third-party address/credit card verifications, negative databases, poker fraud tool).

International Expansion

CryptoLogic's global strategy has resulted in a geographically-diversified business to mitigate the risks of ongoing legislative uncertainty in various countries, increase exposure to gaming-friendly jurisdictions like the U.K., and benefit from near-term growth opportunities in overseas markets.

We are well positioned to continue to build on our strong international presence. Today, we work with some of the best international names in online and land-based gaming, as well as major entertainment brands, including Marvel, Paramount, and DC Comics.

We have developed a strong presence in the U.K. In September 2007, the U.K. Gaming Act went into force, which regulates online gaming for the first time in that jurisdiction, and is generally viewed as a positive development for the industry, our customers and for CryptoLogic. Most of the underlying rules and codes in relation to entities established in the U.K., or marketing into the U.K., have now been enacted. However, there is no assurance that the U.K. regulatory regime as interpreted by the Gambling Commission, the Gambling Act's regulator, will provide a commercially-viable market and may create restrictions that will have a material adverse effect on our customers, our business, revenues, operating results and financial condition.

Licensing Opportunities

In 2008, CryptoLogic added 10 new customers for either hosted casinos or individual games in 2008. Highlights include:

- Signing a three-year licensing contract with 888 Holdings PLC, one of the world's most popular online gaming companies allowing 888 to select and integrate casino games from CryptoLogic.
- Signing a three-year casino licensing contract with Sky Betting & Gaming, part of BSkyB Group plc (BSkyB), the U.K.'s leading entertainment brand.
- Acquiring the exclusive rights to be the sole provider of Internet casino and poker software to Betjacks, a new online gaming site.
- Signing a five-year licensing agreement with PartyGaming Plc, one of the world's largest online gaming operators.
- Signing a two-year casino licensing contract with Blackjack Heaven Operations Ltd.
- Signing a two-year casino licensing contract with Internet Media Licensing Ltd.

Over the past three years, CryptoLogic has generally sought licensees that have an established brand, an audience with a propensity to gamble, and sufficient resources and commitment to successfully market the business. In Internet casino, the key to success is differentiation through the combination of our new and innovative games with effective marketing to players by our licensees. CryptoLogic will continue to pursue new opportunities emphasizing brand name licensees with marketing commitment.

Transition in Licensees

Through the normal course of business and also due to the Company's new strategic direction, there was transition in the Company's licensee base in 2008. In 2008 and in early-2009, the following licensees chose to terminate or not to renew their contracts with the Company.

- Peak Casino
- Betsafe
- Maharajah
- Playboy
- World Poker Tour
- Littlewoods
- William Hill (regarding poker)

In June 2008, CryptoLogic announced that one licensee, Sportech PLC, would begin using other gaming software beginning in September 2008. Sportech used CryptoLogic's software for its Littlewoods-branded gaming sites. However, the Company expects to continue earning some revenues from Littlewoods players because Sportech entered into a new relationship with 888 Holdings PLC and, as noted above, 888 Holdings PLC has agreed to integrate casino games from CryptoLogic.

While William Hill migrated its poker business away from Company in early 2009, William Hill is signed on a non-exclusive basis with CryptoLogic through to the end of 2009 with respect to its casino operations. The Company expects the 10 new customers for either hosted casinos or

individual games signed in 2008, plus the additional customers signed in 2009 to partially offset the loss of revenue from the licensees lost in 2008.

New Strategy for Growth

CryptoLogic announced a new growth strategy and restructuring program in October 2008. These plans were developed after a fundamental review of the business by the Company's management under Brian Hadfield, following his appointment as President & CEO at the end of February 2008.

This strategy is to achieve long-term growth, sustained profitability and strong cash generation through a new model that focuses on CryptoLogic's successful Internet casino business and the development and licensing of the company's highly acclaimed software.

Key elements of the strategy include:

- **Casino licensing:** Internet casino is by far CryptoLogic's most profitable business, and the company expects significant revenue growth from this segment in 2009, thanks to the new customers signed in 2008, and others to come. CryptoLogic will continue to sell customized casino solutions to both established and emerging gaming brands.
- **New channels for CryptoLogic games:** With the highest-rated casino games on the market, CryptoLogic has found attractive opportunities selling its leading games to other top brands, such as 888.com and PartyGaming. These and other large global gaming sites offer significant revenue potential for 2009 and beyond.
- **Branded content:** The Company has been a pioneer in taking top entertainment brands - from legendary superheroes to world-famous video and casual games -- and converting them into highly popular and profitable casino products. CryptoLogic will focus and build on this expertise.
- **Poker partnership:** As noted above, CryptoLogic is outsourcing its poker network to increase liquidity and profitability for customers, while reducing the Company's own expenses substantially. The Company will continue to provide a full-service offering for its licensees through the GTECH network and receive ongoing revenues from its transferred customers.
- **New markets:** The Company will continue to develop its business and manage its recent investments and new relationships in China, Korea, Russia and Singapore to achieve long-term growth.

Thanks in large part to the elimination of the costs of running a stand-alone poker network, the Company is implementing a plan to reduce annual operating costs by \$13 million through various initiatives. Approximately \$8.5 million of the savings are attributable to a reduction in employee expenses; about \$2.5 million are from infrastructure and facilities downsizing; and some \$2.0 million in savings are expected from operational efficiencies across the business.

Trends

2008 was a year of change and transition for CryptoLogic. The Company's 2008 financial results reflect the ongoing challenges of operating entirely outside the U.S., the global economic recession and the need for CryptoLogic's new management to develop a new strategy for growth. Revenue declined by 16.5% to \$61.5 million (2007: \$73.7 million) and the Company recorded a loss of \$32.7 million (2007: profit of \$5.5 million). Net cash as at December 31, 2008 was \$43.8 million (2007: \$77.5million).

Given difficult global economic conditions, the Company is taking a cautious view of top-line growth in 2009. While the Internet gaming market continues to promise growth, competition is intensifying for players and market position; growth in online poker has moderated; and the global legislative environment continues to evolve. Despite these challenges, CryptoLogic remains optimistic about the future of online gaming and believes that its disciplined strategy and low-cost, high-potential business model will enable the Company to remain a leader.

Management expects that CryptoLogic's actions to reduce operating costs and execute its new growth strategy will enable the Company to return to profitability and cash generation from Q2 2009. The Company expects full-year cash generation post-restructuring of \$11-\$13 million, net profits in the range of \$9-\$10 million, and diluted earnings per share of 65-71 cents. The above guidance assumes no significant further deterioration in economic conditions and stabilization of currency rates.

CryptoLogic is being very vigilant in ensuring that revenue and expenses remain at an acceptable ratio, and is not planning significant changes to its cost structure at this time. The Company will use current resources to execute current projects and take advantage of revenue-enhancing opportunities in Europe, Asia and other major international markets. We have reduced our expenses and will continue to focus on maintaining close control over discretionary expenditures as we align with the new market environment.

Recent Developments

On February 18, 2009, CryptoLogic received letters from Mr. Javaid Aziz (the former President and Chief Executive Officer of CryptoLogic) and Cede & Co. requesting that an extraordinary meeting of shareholders be held, at which the shareholders of CryptoLogic would consider, among other matters, whether to replace Mr. Yap Wai Ming, a current director of CryptoLogic, with Mr. Aziz.

In response to these letters, on February 22, 2009, CryptoLogic sent Mr. Aziz a letter that detailed the deficiencies in his request for an extraordinary meeting and outlined the board of directors' issues and concerns with Mr. Aziz's conduct during and after his tenure as Chief Executive Officer of CryptoLogic.

Mr. Aziz withdrew his request for an extraordinary meeting of shareholder of CryptoLogic on March 4, 2009.

ITEM 4: DESCRIBE THE BUSINESS

Summary

CryptoLogic is one of the first publicly listed online gaming software developers and suppliers, and a leader in the global Internet gaming industry. The Company's common shares trade on the Toronto Stock Exchange (symbol: CRY), NASDAQ Global Select Market (symbol: CRYP) and the London Stock Exchange's Main Market (symbol: CRP). The Company's exchange shares trade on the Toronto Stock Exchange (symbol: CXY). Our head office is located in Dublin, Ireland, which provides executive functions to the corporate group. Our Toronto, Canada office provides software development, upgrades and technical support for WagerLogic, a subsidiary of CryptoLogic, as well as all usual administrative functions.

Located in Cyprus, Malta and the U.K., the WagerLogic group of companies provides licensing and hosting for our Internet gaming software, e-cash systems and support, customer support, marketing support and other services to third-party gaming operators or licensees around the world. Our e-cash systems and support system enable licensees' players to deposit and withdraw funds through a wide range of payment options for use with the licensee. Our 24/7 customer call centre support helps our licensees' players with technical questions or assistance with the gaming software and e-cash

accounts. Our small staff in Singapore is responsible for advancing our strategy and business development in Asia.

As at December 31, 2008, we had 14 licensees (2 of these licensees left in February 2009 due to GTECH migration) located around the world. Our licensees operate under government authority where their Internet business subsidiaries are domiciled. In August 2007, the Company moved its licensees' primary Internet gaming jurisdiction to Malta. Certain technical requirements set out by the licensing authority in Malta need to be fulfilled in order to maintain the license in good standing. The licence in Malta facilitates access to European markets by the Company's licensees from within the E.U..

Principal Markets

CryptoLogic, through WagerLogic, provides a complete, turn-key online gaming solution predominantly focused on the Internet casino and poker markets of the global online gaming industry. We work with a large group of international brand name licensees and target prospective licensees with a focus in the key geographic markets for online gaming including the U.K. and Continental Europe, which we view as the regions that offer the best near-term growth opportunities. As a result of the UIGEA, the Company will not support licensees who take wagers from U.S.-based players. In the longer term, we see Asia as the next major market. The population is ten times that of North America and gaming has been part of the culture for thousands of years. However, significant regulatory and commercial challenges remain in the market, which the Company does not believe will be resolved immediately.

In 2008, CryptoLogic's total online gaming solution was comprised of:

1. A broad, turn-key Internet-based game suite featuring:
 - more than 314 download and non-download casino table and slot games;
 - multi-languages (English, Spanish, Greek, Japanese, Chinese, French, German, Italian)
 - multi-currencies (U.S. dollars, British pounds and euro)
 - multi-platforms (download, non-download (Java and Flash), wireless); and
 - multi-player bingo;
2. E-cash systems and support for player deposits and withdrawals;
3. Business intelligence and data analysis tools to assist licensees in their marketing efforts;
4. Licensee support through WagerLogic's 24/7 multi-language customer support; and
5. Marketing support services, to assist licensees in developing and executing strategies for marketing their online gaming businesses.

Our Internet-based gaming and electronic commerce software products are used by licensees to create virtual casinos or bingo halls. Currently, no customer licenses our bingo software. The downloadable software package transfers the "front-end" information (i.e., playing cards, roulette wheel, dice numbers) between users and remote servers. The software package utilizes each user's computer to generate the graphics of the virtual casino or bingo hall, while the licensees' gaming servers perform the "dealer" function, generating the random numbers of playing cards, roulette numbers and dice numbers, as applicable. Many of our most popular casino games are also available on either the Flash or Java platforms, which provide an entertaining gaming experience without having to wait for software to download.

Among other things, our software contains proprietary encryption features, which allows secure transmission of data, and permits our licensees to offer multi-player games, a panoramic virtual casino floor populated by real players, progressive jackpots, Internet browsing features and inter-player chatting.

As part of our commitment to safe and responsible gaming, our gaming solution provides personal options and security features including deposit and bet limits, temporary and permanent account locks, personal identification verification, and online tracking of a player's gaming activity and financial transactions. We are also able to restrict registration and game play from residents of prohibited jurisdictions.

Our gaming solution is complemented by e-cash systems and support. We provide Internet-based electronic commerce support and technology to our licensees and their respective customers and maintain, through subsidiaries, electronic commerce accounts for both merchants of our electronic commerce software and their end-users.

For the majority of our licensees, we report and remit to our licensees the net transaction revenues less licensing and support fees payable to the Company (as specified in the applicable licensing agreements). Some licensees have responsibility for their own e-cash systems and support to enable an integrated single player account for all their online offerings, which have our licensees remit licensing fees to us.

Using our e-cash software, players can use a wide range of payment options, including credit and debit card and various electronic wallets. Web cashier accounts can be opened in United States dollars, British pounds sterling, and euro.

To assist our licensees in retaining players and re-activating lapsed accounts, we have invested significantly in our customer relationship management solution. We have introduced and improved our back-office offering with sophisticated business intelligence, data warehousing and marketing tools to assist licensees in understanding, servicing and building one-on-one relationships with their players.

We also provide 24/7 customer support in the languages and currencies supported by our software for enhanced convenience to our licensees' global player base. Our customer support is available to help players with technical questions or assist with the gaming software and e-cash accounts.

We view our marketing support services as a key differentiator in our product and service offerings, as they form a key part of the Company's brand ownership and management strategy. For example, OIGE CG Limited, operator of the InterCasino brand, uses our marketing support services.

It is our objective to continue to introduce innovative software products, support tools and services that appeal to broad segments of gaming audiences worldwide.

Distribution Methods

We currently market our technology and services through a select sales and marketing strategy whereby we identify key potential customers that meet our licensee profile, and then contact such prospects directly. The Company attends industry trade shows around the world to generate new prospects, and responds to referrals from existing customers and other industry participants. CryptoLogic has sought licensees with an established brand, an audience with a propensity to gamble, and sufficient resources and commitment to successfully market the business.

In Internet casino, the key to success is differentiation through the combination of our new and innovative games with effective marketing to players by our licensees. CryptoLogic will continue to pursue new casino opportunities emphasizing brand name licensees with marketing commitment. In online poker, the key to success is liquidity, that is, more players from more sources – 24/7. In November 2008, the Company announced the outsourcing of its hosted poker business by entering

into a strategic partnership with GTECH Corporation's International Poker Network. The move gives CryptoLogic's poker licensees and players access to a larger network with a combined average of 15,000 active players.

We are leveraging our strong U.K. licensee base to continue to focus our sales and marketing efforts in our key markets of the U.K. and Continental Europe, and to explore longer term prospects in other markets such as Asia. Our strategy in these markets includes the use of or introduction of multi-language and multi-currency software versions, by marketing current languages and currencies and introducing new ones with existing and new customers, as well as exploring foreign payment options that increase the ability of our customers to attract a broader, international player base. As a result of the UIGEA, the Company will not support licensees who take wagers from U.S.-based players.

While Asia offers large market potential, this region represents a longer term opportunity because of higher barriers to entry due to fragmented legislation and no single popular payment form. Moving into 2009, we expect to maintain a presence in Asia, but will not aggressively pursue new opportunities.

Revenue

Substantially all of our revenue is of a recurring nature in that WagerLogic's licensees pay an ongoing fee each month over the contract term for the licensing and support of our software, calculated as a percentage of each licensee's level of activity. Additional revenues are derived from other sources including fees for the provision of software customization, and advertising and marketing services related to our portal business. Historically, we experience seasonality with slower sales in the second and third quarters, as the use of the Internet is not as strong in the summer months when players tend to spend less time indoors and at their computers. Typically, our first and fourth quarters (during the winter and fall seasons) are our strongest revenue periods.

In 2008, revenue was \$61.5 million (2007: \$73.7 million), with 90.9% (2007: 93.6%) of this amount represented by ongoing software licensing fees. Other revenue sources, which primarily included fees for software customization and advertising and marketing services generated from our portal business, accounted for 9.1% of total revenue (2007: 6.4%).

Fee revenue from our casino business is calculated as a percentage of a licensee's level of activity in its online casino site. By contrast, fees from Internet poker are based on a percentage of the licensee's "rake" per hand in regular or ring games (the rake is typically 5% of the pot, up to a maximum amount per hand), or fixed fees for entry into poker tournaments. \$42.2 million or 68.5% of our total revenue was derived from our casino business in 2008 (2007: \$49.5 million or 67.1%). Internet poker fees were \$13.8 million or 22.4% of total revenue in 2008 (2007: \$19.5 million or 26.5%).

Production and Services

Through its subsidiary, WagerLogic, the Company's gaming software, e-cash systems and support and 24/7 customer support, are licensed, typically as a complete solution, to an international customer base. WagerLogic licensees pay an initial one-time customization fee to brand the software to the look and feel of that particular customer and then an ongoing fee for the licensing and support of the software, calculated as described earlier. WagerLogic retains ownership and control of the software being licensed. Fees for our marketing support services are reflected in both higher licensing fee rates as well as separate charges for specific work performed.

The Company's research and development (R&D) activities are predominantly performed in Canada with some remote development in Kiev, Singapore and Shanghai. Certain game variations, themes and components may be outsourced to third-party development organizations. The Company is organized into dedicated teams to specialize in strategic focus areas: i) casino and poker game development and enhancements; ii) system infrastructure and scalability; and iii) enhancement of our

customer support and back-office systems. System infrastructure servers, which include gaming servers, e-cash servers, database servers and download servers, are required to ensure effective operations of licensees' online gaming sites. The Company owns and maintains the infrastructure servers, which are located in various jurisdictions around the world in secure facilities. The game servers are owned by a third party and contracted to the Company for its use.

Specialized Skill and Knowledge

Of the 276 people employed by CryptoLogic and its subsidiaries on December 31, 2008, 87% are dedicated to development, licensee support operations and product support. Our ability to attract and retain highly skilled technical and management personnel and a multi-lingual customer support staff is one of the key factors in our success.

Competitive Conditions

Although online gaming is a fast-growing industry, it is becoming increasingly competitive and sophisticated. GBGC, a U.K. consulting firm focused on the land-based and online interactive gaming industries, estimates that the global market for online gaming, which is comprised of casino games, sports betting, poker, bingo, and lotteries, reached \$7.2 billion in annual revenue in 2006 (excluding the United States), up from \$2.7 billion in 2003. While it is difficult to confirm the exact number of Internet gaming sites since most companies are private, current estimates are around 2,400 online gaming properties down from more than 2,800 (source: GBGC) several years ago. This decrease points to industry consolidation. As Internet gaming has developed and increased in sophistication, so have the players who can choose from a proliferation of sites. Competition for players' attention and share of wallet is intensifying, and players are demanding more value, more games and the ultimate entertainment experience.

As part of our new strategy, CryptoLogic's primary focus areas are our successful Internet casino business and the development and licensing of the Company's highly acclaimed software.

Licensees of our software compete with existing and more established recreational services and products, in addition to other forms of entertainment. Our success will depend, in part, upon our ability to enhance our products and services, expand our system infrastructure and resiliency, keep pace with technological developments, respond to evolving customer requirements and achieve continued market acceptance.

We compete with a number of public and private companies, which provide electronic commerce and/or Internet gaming software. Given the stage of development of the industry and the number of private organizations operating in the industry, information about the nature of our competitors, their operations and their resources is difficult to compile. In addition to current known competitors, traditional land-based gaming operators and other entities, many of which have significant financial resources and name-brand recognition, may provide Internet gaming services in the future, and thus become competitors of CryptoLogic. Increased competition from current and future competitors and increased expenditures has and could continue to result in the reduction of our margins, or could result in the loss of our market share.

The global nature of the Internet makes most Internet markets, including the online gaming industry, relatively accessible to a wide number of entities and individuals. We believe the principal competitive factors in our industry that create certain barriers to entry include reputation, technology, financial stability and resources, proven track record of successful operations, critical mass, regulatory compliance, independent oversight and transparency of business practices. While these barriers will limit those able to enter or compete effectively in the market, it is likely that new competitors will be established in the future, in addition to known current competitors.

New Products and Services

In 2008, we continued to expand our game suite in our core casino business with a succession of new themes and variations. New games help re-energize players and drive increased revenue for our licensees and CryptoLogic. During the year, we released 34 more casino games including:

- the Internet's first-ever slot version of the world-famous Street Fighter(R) II arcade game;
- a new three-game lineup that features the legendary Marvel Super Hero, Spider-Man, a new adventure slot game called Dragon Sword, and an enhanced version of Atlantic City Blackjack, one of the Company's most popular casino games;
- a suite of four-level jackpot slots called Movie Mayhem, which provide today's sophisticated online casino players with spectacular animation and giant jackpots; and
- the launch of the latest installment of CryptoLogic's proprietary Multi Hand Video Blackjack game: 4 Deck Multi Hand Video Blackjack.

Intellectual Property

As a leading software developer in the Internet gaming industry, our business is based on licensing our gaming software and related proprietary e-commerce technology and support services through WagerLogic. We rely on a combination of laws and contractual provisions to establish and protect our rights in our software and proprietary technology. We believe that our competitive position is in part dependent upon our ability to protect our proprietary information and technology. We generally enter into non-disclosure and invention agreements with employees, licensees, consultants and customers, and historically have provided restricted access to our software products' source codes. Our source codes are proprietary to us and we attempt to protect the source code versions of our products as trade secrets and unpublished copyrighted works. Despite our precautions and measures implemented to protect against such attempts, unauthorized parties may have or could in the future copy or otherwise reverse engineer portions of our product or otherwise obtain and use information that we regard as proprietary.

We have patents and trademarks in certain jurisdictions and are in the process of applying for further trademark registrations and patents, which may provide protection in relevant jurisdictions. However, there can be no assurance that this will be sufficient to fully protect our proprietary technology. In addition, certain provisions of our license agreements, including provisions protecting against unauthorized use, transfer and disclosure, may be found to be unenforceable in certain jurisdictions.

We believe that patent, trademark, copyright and other legal protections are less significant to our success than other factors such as the knowledge, ability and experience of our personnel, new product and service developments, frequent product enhancements, customer service and ongoing product support.

We also have a proprietary interest in our name. The names "CryptoLogic" and "WagerLogic" have become well known in the Internet gaming industry. Accordingly, our competitive position could be affected if our name was misappropriated and our reputation compromised.

There can be no assurance that the steps we have taken to protect our proprietary rights will be adequate to deter misappropriation of our technology or independent development by others of technologies that are substantially equivalent or superior to our technology. Any misappropriation of our name, technology or development of competitive technologies could have a material adverse effect on our business, revenues, operating results and financial condition.

We also have licensing agreements with third parties for intellectual property that we use in the provision of our gaming software and services, which are subject to renewal. Due to the complex and sophisticated nature of the business, there can be no assurance that there has been no unintentional breach of some parties' intellectual property rights.

Cycles

Historically, we have experienced slower revenues in the second and third quarters, as the use of the Internet is not as strong in the summer months, when players tend to spend less time indoors and at their computers. Typically, our first and fourth quarters (during the winter and fall seasons) are our strongest revenue periods.

Economic Dependence

In 2008, our top 7 licensees accounted for approximately 81% of our total revenue. In addition, all of our licensees operate from one licensing jurisdiction. The loss of one or more of these key licensees or their license to operate in the licensing jurisdiction or a material change in the terms