

CRYPTOLOGIC LTD  
Form 20-F  
March 25, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-30224

CryptoLogic Limited

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(Exact name of Registrant as specified in its charter)

Guernsey, Channel Islands

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(Jurisdiction of incorporation or organization)

Marine House, Clanwilliam Place  
Dublin 2, Ireland

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(Address of principal executive offices)

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(Name, telephone, e-mail and/or facsimile number and address of contact person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class: Common Shares  
Name of each exchange on which registered: NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2010.

13,819,051 Common Shares (including 939,131 Exchangeable Shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

- U.S. GAAP
- International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, except as otherwise indicated or as the context otherwise requires, the “Company”, “we”, “us” and “our” refers to CryptoLogic Limited and its operating subsidiaries.

Pursuant to a business reorganization implemented by way of an Ontario, Canada 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 (“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 Exchangeable Shares are, as nearly as practicable, the economic equivalent of the Common Shares. The holders of Exchangeable Shares and Common Shares participate equally in voting and dividends. No additional shares of CEC have been or will be issued.

For accounting purposes, the Arrangement has been accounted for using the continuity of interest method, which recognizes CryptoLogic Limited as the successor entity to CryptoLogic Inc. Accordingly, financial information presented in the annual report reflects the financial position, results of operations and cash flows as if CryptoLogic Limited has always carried on the business formerly carried on by CryptoLogic Inc., with all assets and liabilities recorded at the carrying values of CryptoLogic Inc. The interest held by CEC shareholders has been presented as a minority interest in the consolidated financial statements, as required under Canadian generally accepted accounting principles (“Canadian GAAP”).

We have prepared our financial statements in accordance with Canadian GAAP, which are different from generally accepted accounting principles in the United States (“U.S. GAAP”) and may not be comparable to financial statements of United States companies. Significant measurement differences in our financial information between Canadian GAAP and U.S. GAAP for the years ended December 31, 2010, 2009, and 2008 are disclosed in Note 22 to our audited consolidated financial statements.

In this annual report, all currency refers to U.S. Dollars (US\$) and all information is as of March 21, 2011 unless indicated otherwise.

Percentages and some amounts in this annual report have been rounded for ease of presentation. Any discrepancies between totals and the sums of the amounts listed are due to rounding.

Information contained in this annual report concerning the industry in which we operate has been obtained from publicly available information from third party sources (including Global Betting and Gaming Consultants, March 2009, or “GBGC”). Although we believe such information is reliable, we have not had such information verified by any independent source.

This annual report contains trade names, trademarks, registered marks, and service marks including DC Comics™, Superman™, Wonder Woman™, Marvel™, Jenga™, Batman™, Spider-Man™, The Hulk™, Paramount™, Braveheart™, and Gump™ belonging to us and other companies. All trademarks, trade names, registered marks, and service marks appearing in this annual report are the property of their respective holders.



### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward-looking, including statements regarding our expectations, objectives, anticipations, estimations, intentions, plans, hopes, beliefs, or strategies regarding the future. Such forward-looking statements include, but are not limited to:

- the financial or business impact of new or amendments to legislation or regulation in individual countries or by multi-jurisdictional governmental organizations;

- the impact of the loss of key licensees;

- the success of our strategy and restructuring programs to reduce operating costs and return to profitability and positive cash flow;

- the success of Instant Click as a new platform enabling deployment of titles from our suite of games;

- the ability to reduce our recurring cost base;

- the ability to expand the network of licensees and channel partners;

- the ability to expand our offerings to platforms to include mobile, and government licensed in-hotel room systems;

- the ability to leverage existing partnerships for potential future growth based upon both the brand recognition and loyalty associated with these partners and their unique and distinctive intellectual property;

- expected revenue growth from Branded Games and Hosted Casino licensing in 2011;

- potential new revenue sources in 2011 from gaming sites and new product launches;

- the impact of potential legal proceedings upon our business; and

- statements that include the words “may”, “will”, “plans”, “estimates”, “anticipates”, “believes”, “expects”, “intends” and other words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties, and potentially inaccurate assumptions. These risks and uncertainties include, among others, those discussed in “Item 3. Key Information-Risk Factors” of this annual report, (including without limitation, risks associated with i) existing and potential future changes to government regulation, ii) the current global financial condition, iii) legal proceedings, iv) foreign exchange fluctuations, and v) competition) as well as our consolidated financial statements, related Notes, and the other financial information appearing elsewhere in this annual report and our other documents we file with or furnish to the Securities and Exchange Commission. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events, or otherwise.

## PART I

## ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

## ITEM 3. KEY INFORMATION

## SELECTED FINANCIAL DATA

The following financial information of our Company, expressed in U.S. dollars unless otherwise indicated, is only a summary and should be read in conjunction with, and is qualified in its entirety by reference to, our audited annual consolidated financial statements and the related notes, which are included in this annual report. The selected historical financial data set forth below as of and for each of the years ended indicated has been derived from our consolidated financial statements.

For the Years Ended December 31, (In thousands, except per share disclosure)	2010	2009	2008	2007	2006
Revenue	\$25,988	\$39,794	\$61,526	\$73,659	\$104,022
Net (loss)/earnings and comprehensive (loss)/income	\$(20,387)	\$(35,510)	\$(32,738)	\$5,528	\$24,812
Basic (loss)/earnings per share	\$(1.58)	\$(2.78)	\$(2.55)	\$0.47	\$1.83
Diluted (loss)/earnings per share	\$(1.58)	\$(2.78)	\$(2.55)	\$0.47	\$1.81
Basic weighted average number of shares	13,820	13,820	13,888	13,891	13,558
Diluted weighted average number of shares	13,820	13,820	13,888	13,907	13,731
Total assets	\$37,558	\$63,370	\$105,806	\$170,633	\$184,520
Shareholders' equity	\$16,815	\$36,796	\$72,440	\$109,306	\$111,584
Share capital	\$34,129	\$33,916	\$33,552	\$33,407	\$29,096
Dividends per share	\$—	\$0.07	\$0.39	\$0.48	\$0.43

Our financial statements have been prepared in accordance with Canadian GAAP. The significant measurement differences between Canadian GAAP and U.S. GAAP are described in Note 22 to the consolidated financial statements in respect of each of the years presented. If the Company had followed U.S. GAAP, certain items in the consolidated financial statements would have been reported as follow:

For the Years Ended December 31, (In thousands, except per share disclosure)	2010	2009	2008	2007	2006
Net (loss)/earnings	\$(20,102)	\$(36,669)	\$(33,048)	\$5,640	\$25,636
Basic (loss)/earnings per Common Share	\$(1.56)	\$(2.87)	\$(2.57)	\$0.48	\$1.89
Diluted (loss)/earnings per Common Share	\$(1.56)	\$(2.87)	\$(2.57)	\$0.48	\$1.87



## RISK FACTORS

An investment in the Company involves significant risks. Accordingly, prospective investors should consider carefully the specific risk factors set out below in addition to the other information contained in this document before investing in the Company. Additional risks and uncertainties not presently known to CryptoLogic, or that the Board currently considers immaterial, may also affect the business, financial condition, results or future operations of the Company and the trading price of the common shares. If any of the following risks materialize, the business, financial conditions, results or future operation could be materially and adversely affected. In such circumstances, the trading price of the common shares could decline and investors could lose part or all of their investment. Before making any investment decision, prospective investors are advised to consult an independent adviser who specializes in advising upon investments.

Current and future legislation and court decisions may have a material impact on our operations and financial results

The Company and our licensees are subject to applicable laws in the jurisdictions in which they operate. Our Hosted Casino licensees hold government licenses to operate Internet gaming sites hosted in Malta and our Branded Games licensees hold similar licenses issued by the jurisdictions in which their gaming servers are hosted. Some countries have introduced regulations attempting to restrict or prohibit Internet gaming, while others have taken the position that Internet gaming should be regulated and have adopted or are in the process of considering legislation to enable that regulation.

While the U.K. and other European countries such as Malta and Gibraltar have currently adopted a regime which permits its licensees to accept wagers from any jurisdiction, other countries, including Italy and France have, or are in the process of implementing regimes which only permit the targeting of the domestic market provided a local license is obtained and local taxes accounted for. Other European territories continue to defend a licensing regime that protects monopoly providers and have combined this with an attempt to outlaw all other supplies. Either of these restrictive approaches may yet be deemed to be in potential conflict (in any specific jurisdiction) with E.U. treaty law (governing the free movement of trade and services throughout the European Union) and case law rendered by the European Court of Justice (the "ECJ"), but recent ECJ decisions have given E.U. Member States wide latitude in regulating the on-line gaming markets. Over the past several years, the European Commission (the "EC") has attempted to prompt the introduction of directives that would harmonize online gaming within the E.U., which is in line with the EC's stated goal of encouraging a free and open cross-border market. In early 2011, the EC's Internal Market Commissioner, Michel Barnier, began an E.U.-wide consultation and review process on on-line gaming regulation. Harmonization in the area of on-line gaming, however, has met with substantial opposition in the past, and there can be no certainty that the consultation and review will recommend such harmonization or that any recommendation of harmonization will be adopted. There is, therefore, no indication that any such harmonization will be achieved in the near term. Contemporaneous with its efforts to harmonize European online gaming laws, the EC has initiated infringement proceedings against various member states in relation to perceived breaches of Article 56 of the Treaty on the Functionality of the European Union (which article enshrines the principle of freedom of movement of services), but in most cases these have not reached conclusion.

As companies and consumers involved in Internet gaming are located around the globe, including our licensees and their players, there is uncertainty regarding which government has authority to regulate or legislate the industry. The Unlawful Internet Gaming Enforcement Act ("UIGEA"), which is designed to prohibit payments relating to Internet gaming was enacted on October 13, 2006 in the United States, and similar legislation may be adopted in other jurisdictions.

Future legislative and court decisions may have a material impact on our operations and financial results. There is a risk that governmental authorities may view us or our licensees as having violated their local laws, despite CryptoLogic's contractual requirement that each of its licensees is licensed to operate an Internet gaming business by the governmental authority of the country in which the gaming servers associated with the licensees' gaming operations are located. Therefore, there is a risk that civil and criminal proceedings, including class actions brought by or on behalf of prosecutors or public entities incumbent monopoly providers, or private individuals, could be initiated against us, our licensees, Internet service providers, credit card processors, advertisers and others involved in the Internet gaming industry. Such potential proceedings could involve substantial litigation expense, penalties, fines, seizure of assets, injunctions or other restrictions being imposed upon us or our licensees or other business partners, while diverting the attention of key executives. Such proceedings could have a material adverse effect on our business, revenues, operating results and financial condition as well as impact upon our reputation.

There can be no assurance that legally enforceable prohibiting legislation will not be proposed and passed in jurisdictions relevant or potentially relevant to our business to legislate or regulate various aspects of the Internet or the Internet gaming industry (or that existing laws in those jurisdictions will not be interpreted negatively). Compliance with any such legislation may have a material adverse effect on our business, financial condition and results of operations, either as a

result of our determining that a jurisdiction should be blocked, or because a local license may be costly for us or our licensees to obtain and/or such licenses may contain other commercially undesirable conditions.

There have recently been a number of legal developments associated with the manner in which the business of gaming, and in particular, Internet gaming, is treated in the U.K. and Continental Europe. Some of these developments can be considered as positive and some as negative. In this regard a brief summary of the regulatory situation in the U.K., Europe, and the United States follows:

#### United Kingdom

In September 2007, the U.K. Gambling Act came into force, which regulated online gaming for the first time in that jurisdiction. Most of the underlying codes in relation to entities established in the U.K., or marketing into the U.K. have been enacted. However, there is no assurance that the U.K. regulatory regime as interpreted by the Gambling Commission, the Gambling Act's independent regulator, will provide a commercially-viable market and may create restrictions that would have a material adverse effect on CryptoLogic's customers, business, revenues, operating results and/or financial condition. Indeed, the Department of Culture Media and Sport (the "DCMS") (the government body with responsibility for overseeing gambling), has recently announced that it may reconsider one of the main tenets of the Gambling Act, namely that if an online gaming operator was regulated either in Europe or in a jurisdiction approved by the DCMS (the so called "white listed" jurisdictions) such an operator could fully target the UK gambling market. The DCMS is in the process of conducting a review of on-line gaming and is expected to publish the results of this review in the next few months. It seems likely that the DCMS will recommend that it will require entities not licensed in the UK to acquire some form of additional accreditation to access the UK market and/or pay taxes in the UK.

#### Continental Europe

##### France

The French law authorizing the licensing of online gaming operators came into effect in April 2010, and the first licenses were issued in June 2010. Licenses are currently available only in relation to poker games and sportsbook. The French authorities have adopted an aggressive enforcement stance against those operators that attempt to operate in France without a French license. Moreover, the licenses are subject to undesirable commercial terms, such as limits on maximum payouts and high levels of tax. Moreover, all poker play can only be amongst French customers, which severely impedes liquidity.

##### Germany

Online gambling was expressly prohibited in Germany by the State Gambling Treaty of 2008, under which an operator is liable to civil or administrative sanctions. Article 284 of the German Criminal Code which applies criminal sanctions to operators who provide online gambling services into Germany without a form of authorization has been the subject of legal debate over the purported breadth of its application.

Conflicting domestic court decisions on the legality of domestic law relating to online gambling (in light of the uncertainty of the application of Article 284 of the Criminal Code to online gambling businesses licensed outside of Germany, in particular by other EU member states, and the legality of the State Gambling Treaty under EU law) has led to uncoordinated enforcement action.

In September 2010, the ECJ handed down two judgments that call into question the enforceability of the State Gambling Treaty under EU law. Moreover, the State Gambling Treaty expires on 31 December 2011, requiring Germany to address the issue of online gambling prior to this date. Although Germany's sixteen regional governments recently announced a consensus to regulate and license the sports betting market, opinions as to the appropriate form of regulation of on-line gambling differ among Germany's sixteen regional governments. There can be no certainty, therefore, as to what form this regulation will take, and whether it will continue to ban online gambling or provide a licensing of online gambling, nor can there be any certainty as to the terms of licensing (or commercial viability of any license) in the event that licensing is implemented in Germany.

#### Italy

Italy introduced a licensing regime in 2010, which allows licenses for on-line casino games as well as sports betting and poker. The administrative, technical, tax and financial burdens, however, associated with these licenses are high. Moreover, there can be no guarantee that the Company's licensees will be successful in obtaining an Italian license, or that the Company's games will be approved under the Italian licensing regime. The Company and its licensees remain at risk that Italy may take aggressive action against parties whose operations are not licensed pursuant to the regulatory regimes established by this country.

## Spain

Madrid's and Basque's regional governments have implemented legislation to regulate Internet gaming but it only permits services to be supplied by the licensed entity to Madrid residents. Therefore obtaining a license may be of little commercial value to any operator.

In February 2011, the Spanish parliament began consideration of nationwide regulation of on-line gambling, including the licensing of online operators. There can be no assurance, however, that the law will be approved by parliament or that casino games would be allowed under the proposed law or that the licensing requirements and taxation will be on a commercially viable basis. In the event of the law is passed, the Company and its licensees will remain at risk that Spain may take aggressive action against parties whose operations are not licensed in Spain.

## The Netherlands

The Dutch government has consistently taken steps to support and protect its state-sponsored casino operator's (Holland Casino) monopoly, including taking legal action against Internet gaming operators. In addition, an announcement in 2009 by the Dutch Minister of Justice to the effect that payment support by Dutch banks of online gaming was unlawful (and precluded by existing law) caused a number of operators to be blocked from the territory, and this cautious approach has been further exacerbated by the judgment of the ECJ in June 2010, following the negative opinion of Advocate General Bot and upholding the Dutch regulations as not inconsistent with EU law, in the case referred to the ECJ by Betfair and Ladbrokes. In the event that the Dutch courts implement the ECJ decision and the government seeks to take further steps to protect the online business of Holland Casino by discouraging other operators from operating in the Dutch marketplace, either through changes in legislation or enforcement measures, the Company's licensees (and CryptoLogic accordingly) could be adversely impacted. While there have been recent reports that the Dutch government is considering licensing online gaming as a revenue raising method, these proposals are in a preliminary stage and there can be no guarantee that the Dutch government would implement a licensing regime or that the terms of such licenses, including the tax and technical requirements thereof, would create commercially viable conditions for online operators.

## Scandinavia

Governments in most Scandinavian countries have attempted to discourage their citizens from gambling with online operators by taxing their citizens' winnings. Generally speaking, winnings realized through a state sponsored operator are not taxable, but winnings from other sources can be subject to inconsistent application of taxation law in relation to domestic and non-domestic products in the E.U. Until such time as the tax authorities in the various countries make an official pronouncement on the manner in which these tax laws will be applied, it is unclear as to what impact these tax policies will have on the business of the Company's licensees. In Norway, the government has specifically banned payment support of online gambling which came into force in 2010. The ban means only payment support of state-owned gambling services will remain legal. Sweden prohibits advertising by foreign gaming operators, which is designed to protect. In Denmark, the Danish parliament has approved legislation on regulating the Danish gaming market, including a licensing regime for on-line gaming. Although this licensing regime was to come into effect on 1 January 2011, its implementation has been delayed due to a number of developments, including challenges to the regime at an EU level. Implementation of the new law may now be delayed by up to two years. Moreover, there can be no guarantee that the Company's licensees will be successful in obtaining a Danish license, or that the Company's games will be approved under the Danish licensing regime.

## United States



Since the enactment of UIGEA in October 2006, the Company has prohibited its licensees from taking any wagers from U.S. residents. The UIGEA sought to clarify the illegality of processing or transferring any funds connected with unlawful Internet gaming, although some U.S. enforcement agencies claimed that previous existing legislation similarly outlawed these activities. Given that the Company had previously derived licensing revenue and provided payment processing solutions (through its e-cash services) on behalf of some licensees who took wagers from the U.S., there is no guarantee that the U.S. Department of Justice will not seek to prosecute the Company, its officers or directors for alleged historic transgressions or similarly prosecute its licensees or their directors or shareholders. Such proceedings could result in criminal penalties, substantial fines, damages and sequestration of assets. They also could damage the reputation of the Company, divert the attention of the Company's key executives and have a material adverse effect on the business, revenues, operating results and/or financial condition of the Company. Although recent developments at a state level have seen the State of New Jersey attempt to introduce an intra-state on-line gambling licensing regime, vetoed by the state governor, there are doubts as to the compatibility of such a regime with federal law. Moreover, such a limited market may not be commercially viable for operators. Moreover, these licenses would be limited to operators already holding land-based casino licenses within the State of New Jersey, and none of the Company's current licenses hold such licenses.

The loss of a major payment option could limit our ability to accept deposits.

With the enactment of the UIGEA, financial institutions in the United States ceased to accept online gaming transactions. There can be no assurance that other financial institutions or credit card issuers outside the United States will not enact additional restrictions. The loss of a major payment option would have a material adverse effect on our business, revenues, operating results and financial condition.

There can be no assurance that the systems and protective measures we have in place will or can guarantee protection against fraudulent activities and unauthorized access from minors.

There can be no assurance that the systems and protective measures we have in place will or can guarantee protection against fraudulent activities and unauthorized access from minors, which could have a material adverse effect on our reputation, business, revenue, operating results and financial conditions. We attempt to mitigate these concerns with systematic controls and a dedicated fraud team.

In addition to regulations pertaining specifically to online gaming, we may become subject to any number of laws and regulations that may be adopted with respect to the Internet and electronic commerce.

In addition to regulations pertaining specifically to online gaming, we may become subject to any number of laws and regulations that may be adopted with respect to the Internet and electronic commerce. New laws and regulations that address issues such as user privacy, pricing, online content regulation, taxation, advertising, intellectual property, information security, and the characteristics and quality of online products and services may be enacted. As well, current laws, which predate or are incompatible with the Internet and electronic commerce, may be applied and enforced in a manner that restricts the electronic commerce market. The application of such pre-existing laws regulating communications or commerce in the context of the Internet and electronic commerce is uncertain. Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement, libel and personal privacy are applicable to the Internet.

The adoption of new laws or regulations relating to the Internet, or particular applications or interpretations of existing laws, could decrease the growth in the use of the Internet, decrease the demand for our products and services, increase our cost of doing business or could otherwise have a material adverse affect on our business, revenues, operating results and financial condition.

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in the value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market.

Current global financial conditions have been characterized by increased volatility and several financial institutions have either gone into bankruptcy or have had to be assisted by governmental authorities. Access to public financing has been negatively impacted by both the rapid decline in value of sub-prime mortgages and the liquidity crisis affecting the asset-backed commercial paper market. As a result, several major economies have been in prolonged recessions, including but not limited to, the United Kingdom, as well as Ireland, where the Company is headquartered. If these economies do not recover in a timely manner, future revenues may be adversely impacted. Secondly, the disruption to the global finance markets may impact the ability of the Company to obtain equity or debt financing in the future on terms favorable to the Company, if at all. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be adversely affected.

There can be no assurance that the Internet infrastructure or the Company's own network systems will continue to be able to support the demands placed on it by the continued growth of the Internet, the overall online gaming industry or of our customers.

The growth of Internet usage has caused frequent interruptions and delays in processing and transmitting data over the Internet. There can be no assurance that the Internet infrastructure or the Company's own network systems will continue to be able to support the demands placed on it by the continued growth of the Internet, the overall online gaming industry or of our customers.

The Internet's viability could be affected if the necessary infrastructure is not sufficient, or if other technologies and technological devices eclipse the Internet as a viable channel.

End-users of our software depend on Internet Service Providers ("ISPs"), online service providers and our system infrastructure for access to the Internet gaming sites operated by our licensees. Many of these services have experienced service outages in the past and could experience service outages, delays and other difficulties due to system failures, stability

or interruption. Our licensees may lose customers as a result of delays or interruption in service, including delays or interruptions relating to high volumes of traffic or technological problems. As a result, we may not be able to meet service levels that we have contracted for, putting us in breach of contractual commitments, which in turn could materially adversely affect our business, revenues, operating results and financial condition.

The demand and acceptance for new products and services are subject to a level of uncertainty and growing competition.

The Internet gaming industry continues to evolve rapidly. The demand and acceptance for new products and services are subject to a level of uncertainty and growing competition, and if our services do not continue to receive market acceptance, our business, revenues, operating results and financial condition could be materially adversely affected.

Our Internet gaming software and electronic commerce services are reliant on technologies and network systems to securely handle transactions and user information over the Internet, which may be vulnerable to system intrusions, unauthorized access or manipulation.

Our Internet gaming software and electronic commerce services are reliant on technologies and network systems to securely handle transactions and user information over the Internet, which may be vulnerable to system intrusions, unauthorized access or manipulation. As users become increasingly sophisticated and devise new ways to commit fraud, our security and network systems may be tested and subject to attack. We have experienced such system attacks in the past and implemented measures to protect against these intrusions. However, there is no assurance that all such intrusions or attacks will or can be prevented in the future, and any system intrusion/attack may cause a delay, interruption or financial loss, which could have a material adverse effect on our business, revenue, operating results and financial condition.

If ISPs experience service interruptions, communications over the Internet may be interrupted and impair our ability to carry on business.

Our electronic commerce product relies on ISPs to allow our licensees' customers and servers to communicate with each other. If ISPs experience service interruptions, communications over the Internet may be interrupted and impair our ability to carry on business. In addition, our ability to process e-commerce transactions depends on bank processing and credit card systems. In order to prepare for system problems, we are strengthening and enhancing our current facilities and the capability of our system infrastructure and support. Nevertheless, any system failure as a result of reliance on third parties, including network, software or hardware failure, which causes a delay or interruption in our e-commerce services could have a material adverse effect on our business, revenues, operating results and financial condition.

Licensees of our software and services compete with existing and established recreational services and products, in addition to other forms of entertainment.

Licensees of our software and services compete with existing and established recreational services and products, in addition to other forms of entertainment. Our success will depend, in part, upon our ability to 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. In addition to known current competitors, traditional land-based casino operators and other entities, many of which have significant financial resources, an entrenched position in markets and name-brand recognition, may provide Internet gaming services in the future, and thus become our competitors. As well, such companies may be able to require that their own software, rather than the software of others, including our gaming software or our

e-cash systems and support, be used in connection with their payment mechanisms.

The barriers to entry into most Internet markets are relatively low, making them accessible to a large 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, a proven track record of successful operations, critical mass (particularly relating to online poker), 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 enter the market in the future.

Increased competition from current and future competitors has and may in the future result in price reductions and reduced margins, or may result in the loss of our market share, any of which could materially adversely affect our business, revenues, operating results and financial condition.

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In fiscal 2010, our top 7 licensees accounted for approximately 81% (2009: 78%) of our total revenue before amortization. In addition, all our key licensees operate from a limited number of licensing jurisdictions.

In fiscal 2010, our top 7 licensees accounted for approximately 81% (2009: 78%) of our total revenue before amortization. In addition, all our key licensees operate from a limited number of licensing jurisdictions. The loss of one or more of these key licensees, or the loss of their license to operate in the limited number of licensing jurisdictions, could have a material adverse effect on our business, revenues, operating results and financial condition.

Contracts are subject to renewal, renegotiation and may be contingent on certain performance requirements. There can be no assurance that license agreements will be renewed or that there will not be a material change in the terms of the contracts, which could adversely affect our business, revenues, operating results and financial condition.

Licensing contracts generally have multi-year terms, are exclusive, and have renewal provisions, which provide us with a long-term ongoing revenue stream. Contracts are subject to renewal, renegotiation and may be contingent on certain performance requirements. There can be no assurance that license agreements will be renewed or that there will not be a material change in the terms of the contracts, which could adversely affect our business, revenues, operating results and financial condition.

Similar issues exist in respect of brand licensing agreements. Our Branded Games business is dependent on our ability to continue to incorporate into our premium Branded Games, the intellectual property licensed to us by brand licensors, such as Marvel Comics, DC Comics, a division of Warner Bros., and Paramount Digital Entertainment. There can be no assurance that key brand license agreements will be renewed or that there will not be a material change in the terms of the contracts, which could adversely affect our business, revenues, operating results and financial condition.

Disputes may also develop with respect to contracts with other parties, including licensees, brand licensors or games development companies, which, if resolved unfavorably to the Company, could adversely affect our business, revenues, operating results and financial conditions.

We are subject to exposure in regard to chargebacks, which may also result in possible penalties and elimination of payment options.

We are subject to exposure in regard to chargebacks, which may also result in possible penalties and elimination of payment options. Chargebacks refer to any deposit transaction credited to a user's account that is later reversed or repudiated. While the Company has various control measures which seek to minimize exposure to chargebacks, it is not possible to entirely eliminate or prevent chargebacks, and a material increased incidence of chargebacks could have a material adverse effect on our business, revenues, operating results and financial conditions.

There are certain difficulties and risks inherent in doing business internationally, including the burden of complying with multiple and conflicting regulatory requirements, foreign exchange controls, potential restrictions or tariffs on gaming activities that may be imposed.

There are certain difficulties and risks inherent in doing business internationally, including the burden of complying with multiple and conflicting regulatory requirements, foreign exchange controls, potential restrictions or tariffs on gaming activities that may be imposed, potentially adverse tax consequences and tax risks, and changes in the political and economic stability, regulatory and taxation structures, and the interpretation thereof, of jurisdictions in which we, our subsidiaries and our licensees operate, and in which our licensees' customers are located, all of which could have a material adverse effect on our business, revenues, operating results and financial condition.

There can be no assurance that we will be able to sustain or increase revenue derived from international operations or that we will be able to penetrate linguistic, cultural or other barriers to new foreign markets.

Fluctuations in the exchange rate of world currencies could have a negative effect on our reported results.

Our financial results are reported in U.S. currency, which is subject to fluctuations as against the value of the currencies of the countries in which we operate, including British pounds, euro, and Canadian dollars. Fluctuations in the exchange rate of world currencies could have a positive effect on our reported results. We may utilize a hedging program from time to time and/or take advantage of the natural hedge in having operations in multiple currencies to mitigate a portion of our currency risks, but there can be no assurance that we will not experience currency losses in the future, which could have a material adverse effect on our business, revenues, operating results and financial condition.

Our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws.

We are subject to income taxes in Ireland, Canada, Cyprus, Malta and other jurisdictions. Our tax calculations involve estimates in several areas including, but not limited to, transfer pricing. Tax authorities may disagree with our estimates and assess additional taxes. We regularly review the likely outcomes of such assessments in order to determine the appropriateness of our tax provision. However, actual outcomes may differ and could have a material impact on our net income or financial condition. In addition, our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws. In particular, the carrying value of future tax assets is dependent on our ability to generate future taxable income in the jurisdiction where we have recognized the deferred tax assets.

We may be involved in litigation arising in the ordinary course of business. The outcome of such matters cannot be predicted with certainty, and could have a material adverse effect on our business, revenues, operating results and financial condition.

We are involved in litigation arising in the ordinary course of business. The outcome of such matters cannot be predicted with certainty, and could have a material adverse effect on our business, revenues, operating results and financial condition.

Moreover, from time to time, third parties have asserted and may continue to assert patent, trademark, copyright and other intellectual property rights to technologies or business methods that we consider important. There can be no assurance that the assertion of such claims will not result in litigation or that we would prevail in any such litigation or be able to obtain a license for the use of any infringed intellectual property from a third party or, if such a license is required, that it would be available on terms acceptable to us.

In December 2010, a significant supplier of games delivered to the Company a notice of arbitration relating to the agreement between the two companies. In February 2011, the Company delivered to the supplier a notice of termination of the agreement, to take effect from March 2011. Notwithstanding this termination, discussions are ongoing with the aim of reaching a commercially acceptable solution prior to the commencement of significant arbitration proceedings. In the absence of achieving such a solution, arbitration hearings are likely to proceed later in 2011.

In February 2011, a brand licensor delivered to the Company a notice purporting to terminate the brand license agreement between the two companies, claiming that the Company had breached such agreement. The Company believes there is no breach that warrants termination of the agreement and, accordingly, considers the agreement to remain in force.

Our competitive position is dependent in part upon our ability to protect our proprietary technology.

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 dependent in part upon our ability to protect our proprietary technology. We generally enter into non-disclosure and invention agreements with employees, licensees, consultants and customers, and historically have restricted access to our software products' source codes. We regard our source code as proprietary information, and 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



products or otherwise obtain and use information that we regard as proprietary.

Our Company has patents and trademarks in certain jurisdictions and is in the process of applying for further trademark registrations and patents, which may provide such 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 also have a proprietary interest in our name. The names “CryptoLogic” and “WagerLogic” have become known in the Internet gaming industry. Accordingly, our competitive position could be affected if our name was misappropriated and our reputation in any way 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 may infringe upon the intellectual property rights of third parties.

Due to the complex, sophisticated and global nature of the business, there can be no assurance that there has been no breach of third parties' intellectual property rights by the Company, and any adverse judgment in this regard could have a material adverse effect on our business, revenues, operating results and financial condition.

Our future success is dependent on certain key management and technical personnel.

Our future success is dependent on certain key management and technical personnel. The loss of these individuals or the inability to attract and retain highly qualified employees and advisors could have a material adverse effect on our business, revenues, operating results and financial condition.

The challenges of our business and the increasing complexity of our product offerings, coupled with the rapid evolution of our markets, are expected to continue to place a significant strain on our management and operational resources and to increase demands on our internal systems, procedures and controls.

The challenges of our business and the increasing complexity of our product offerings, coupled with the rapid evolution of our markets, are expected to continue to place a significant strain on our management and operational resources and to increase demands on our internal systems, procedures and controls. Our future operating results will depend on management's ability to develop and manage growth, enhance our products and services to respond to market demand, deal with competition and evolving customer requirements, manage our system infrastructure and requirements to meet the growing demands of our business, hire and retain significant numbers of qualified employees, accurately forecast revenues and control expenses. A continued decline in our revenues without a corresponding and timely slowdown in our expenses, or our inability to manage or build future growth efficiently, could have a material adverse effect on our business, revenues, operating results and financial condition.

The market price of our common shares has experienced significant fluctuation and may continue to fluctuate significantly.

The market price of our common shares has experienced significant fluctuation and may continue to fluctuate significantly. The market price of our common shares may be adversely affected by various factors, such as proposed Internet gaming legislation or enforcement of existing laws, the loss of a customer, the announcement of new products or enhancements, innovation and technological changes, quarterly variations in revenue and results of operations, changes in earnings estimates by financial analysts, speculation in the press or analyst community and general market conditions or market conditions specific to particular industries, including the Internet and gaming.

In addition, the stock market has from time to time experienced extreme price and volume fluctuations. These company-specific or broad market fluctuations may adversely affect the market price for our common shares. Anti-online gaming legislation could also impact our ability to remain listed.

Although our common shares are listed and traded on the Toronto Stock Exchange, the NASDAQ Global Select Market and the London Stock Exchange's Main Market, this should not imply that there will always be a liquid market in our Common Shares. In addition, pursuant to a business reorganization completed in 2007 (see page 1) exchangeable shares of an indirect subsidiary of the Company, CEC were issued, and are listed and traded on the Toronto Stock Exchange. Because of separate listings, the trading prices of the Common Shares and CEC shares may not reflect equivalent values. Company-specific or broader market fluctuations may adversely affect the market price of the exchangeable shares, and there can be no assurance that there will continue to be an active market for these securities.

The Company is subject to listing requirements in respect of its listings on the NASDAQ Global Select Market, the Toronto Stock Exchange and the London Stock Exchange Main Market and, in the absence of compliance with all such listing requirements, may face delisting action with consequent reduction in markets available for its common shares to trade.

The Company is subject to listing requirements in respect of its listings on the NASDAQ Global Select Market, the Toronto Stock Exchange and the London Stock Exchange Main Market and, in the absence of compliance with all such listing requirements, may face delisting action with consequent reduction in markets available for its common shares to trade.

Under NASDAQ's continued listing requirements, a security is considered deficient if it fails to achieve at least a \$1.00 closing bid price for a period of 30 consecutive business days. Global Market issuers are provided one automatic 180-day period to regain compliance. An issuer can regain compliance by achieving a \$1.00 closing bid price for a minimum of ten consecutive business days. The Company's closing bid price on NASDAQ was below \$1.00 between March 1, 2011 and March 18, 2011.

Under NASDAQ's continued listing requirements, an issuer is required to have an audit committee consisting of at least three independent directors. Upon Mr. Gavagan's appointment as Interim Chief Executive Officer, he was no longer considered independent and, accordingly, the Company does not have three independent directors. The Company has reported to NASDAQ that the audit committee currently comprises only two members. The Company, under NASDAQ continued listing requirements, has until the next Annual General Meeting to rectify this situation.

The Company has incurred significant operating losses and negative cash flows from operations for the last three years, which resulted in a decrease in cash and cash equivalents in each year. A continuation of such operating losses, negative cash flows from operations and decreases in cash and cash equivalents may cast doubt upon the Company's ability to continue as a going concern.

The consolidated financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred significant operating losses and negative cash flows from operations for the last three years, which resulted in a decrease in cash and cash equivalents in each year. A continuation of such operating losses, negative cash flows from operations and decreases in cash and cash equivalents may cast doubt upon the Company's ability to continue as a going concern.

During 2010, management determined that a material reduction in expenses was necessary in order to preserve cash and give the Company sufficient time to focus on increasing revenues. Accordingly, the Company made a significant restructuring effort resulting in a reduction in operating and general and administrative expense. However, the Company may incur further operating losses and negative cash flows in future periods and, if its cash resources and financing options are insufficient, its ability to operate would be adversely impacted.

#### ITEM 4. INFORMATION ON THE COMPANY

##### A. HISTORY AND DEVELOPMENT OF THE COMPANY

The Company originally was formed by articles of 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, we changed our name from "Inter.tain.net Inc." to "CryptoLogic Inc." Currently, the Company operates under the name "CryptoLogic Limited".

On June 1, 2007, in order to advance its global strategy, the Company moved its headquarters from Canada to the Republic of Ireland by forming a new parent company, CryptoLogic Limited, a company incorporated under the laws of Guernsey with its place of business in Dublin, Ireland. This business reorganization was implemented by way of an Ontario, Canada 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., which through the Arrangement, became an indirect subsidiary of CryptoLogic Limited.

On March 25, 2011, the Company announced that it had appointed Deloitte Corporate Finance as financial adviser to assist it with a strategic review of the Company. This review is at an early stage and will consider a number of strategic options, including the possibility of an offer being made for the Company or a disposal of part of the business. There can be no certainty, however, that any offer will be forthcoming.

Our registered office is located at 1 Le Marchant Street, St. Peter Port, Guernsey, Channel Islands, GY1 4HP. Our head office is located at Marine House, Clanwilliam Place, Dublin 2, Ireland, and our telephone number is 353-(0)1-234-0400.

Our head office provides executive and administrative functions to our corporate group. Our subsidiaries, WagerLogic and Gaming Portals, through their offices in Ireland, Malta and the U.K., provide software, licensing, e-cash systems and support, customer support and marketing support services for our Internet gaming software to third-party gaming operators. Our Toronto, Canada office provides software development, upgrades and technical support for WagerLogic.

## B. BUSINESS OVERVIEW

The Company faced substantial challenges in 2010 as it continued its strategy aimed at returning to profitability and long-term growth against the backdrop of a global economic downturn, continuing disappointing returns from major Hosted Casino licensees and licensee-delays in the roll-out of Branded Games.

Founded in 1995, we launched the world's first on-line casino games that year. With a resilient and scalable platform, a commitment to developing the best games in the marketplace and complemented with excellent customer support, the Company thereafter secured an excellent reputation for its product offering. However, changing market conditions in 2006 and 2007 meant that the model was no longer viable and had to change.

During 2008, the management team announced a new business strategy for the Company and, in 2009 and 2010, we focused on the transition towards that goal. In essence, the new business model is centered on the Company evolving from being purely a developer and licensor of poker and casino software on its own network, to one which still develops and licenses an excellent casino product, but also delivers high-quality, branded and non-Branded Games to the industry at large. This effectively opens up a new market and revenue stream for the Company.

Notwithstanding the foregoing, uncertain business conditions continued throughout 2010, reflected in our lower revenue and working capital as compared with 2009. Against this backdrop of a continuing decline in revenues and working capital, the Company made a significant restructuring effort, commencing midway through Q3 2010, and resulting in a reduction of almost 50% in operating and general and administrative expense to \$6.2 million in Q4 2010 from \$12.1 million in Q2 2010, the last full quarter before this restructuring.

#### MARKETING OPPORTUNITY

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. We also attend industry trade shows around the world to generate new prospects, and respond to referrals from existing customers and other industry participants. CryptoLogic has generally sought licensees with an established brand, an audience with a propensity to gamble, and sufficient resources and commitment to successfully market the business.

In Hosted Casino, the key to success is differentiation through the combination of our new and innovative games, a robust e-wallet with multiple payment options and effective marketing to players by our licensees. CryptoLogic will continue to pursue new casino opportunities emphasizing brand name licensees with marketing commitment. In Branded Games, the key to success is the strategic partnerships established by CryptoLogic with trusted media brands such as Marvel Comics, DC Comics, a division of Warner Bros, and Paramount Digital Entertainment.

#### REVENUE SOURCES

CryptoLogic recorded revenues for the year ended December 31, 2010 of \$26.0 million, a decline of 34.7% (2009: \$39.8 million).

##### Hosted Casino

Hosted Casino revenue decreased by \$10.1 million or 31.6% to \$22.0 million for the year ended December 31, 2010 when compared with the prior year (2009: \$32.1 million). Hosted Casino revenue represented 84.6% of total revenue in 2010 (2009: 80.7%).

This decrease in revenue is due primarily to the contribution from a major licensee reducing by \$4.0 million and the loss of a key customer in 2009 reducing revenue by \$3.4 million. In addition, Hosted Casino revenue in 2009 benefited from a \$0.8 million benefit from a revision of our estimate to discharge future jackpot payouts and a non-recurring \$0.8 million benefit associated with the resolution of a commercial matter. The relative strength of the U.S. dollar negatively impacted Hosted Casino revenue by \$0.4 million during 2010 when compared with the prior year. The Company is liable for funding the jackpot wins from the pool of funds collected and accrues the jackpot amount. The Company regularly performs analysis of the accumulation of jackpot funds and amounts required to address jackpot payouts.

Fees and licensing revenue from both our Hosted Casino and Branded Games businesses are calculated as a percentage of a licensee's level of activity in its online casino site. This is affected by the number of active players on the licensee's site and their related gaming activity. In addition, these results are influenced by a number of factors

such as the entertainment value of the games developed by CryptoLogic, the frequency and success of new game offerings and the effectiveness of the licensee's marketing programs. Hosted Casino and Branded Games revenue are also impacted by the relative strength of the U.S. dollar to both the euro and the British pound as our licensees provide online casinos in these currencies for which we earn a percentage that is translated into U.S. dollars, our functional currency.

#### Branded Games

Branded Games revenue increased 95.4% to \$5.5 million for the year ended December 31, 2010 when compared with the prior year (2009: \$2.8 million). Branded Games revenue represented 21.1% of total revenue in 2010 (2009: 7.1%). During the year, the Company's revenue producing games increased from 66 to 170 games at the end of the 2010. The increase in Branded Games revenue is primarily due to the increased number of revenue producing games through an increased number of licensees and games per licensee. The relative strength of the U.S. dollar negatively impacted Branded Games revenue by \$0.1 million during 2010 when compared with the prior year.

## Poker

Poker revenue decreased 53.8% to \$1.6 million for the year ended December 31, 2010 when compared with the prior year (2009: \$3.5 million). Poker revenue represented 6.3% of total revenue in 2010 (2009: 8.8%). The decrease in poker revenue is primarily due to a reduction in player numbers and the transition of our poker network to GTECH in March 2009, which reduced the number of the Company's poker licensees and increased fees paid to GTECH. The relative strength of the U.S. dollar did not have a material impact on poker revenue during 2010 when compared with the prior year.

The Company offers a "virtual" poker room for its licensees using software and technology provided on GTECH Corporation's International Poker Network. Fees from online 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 entry fees for entry into poker tournaments. Players prefer poker rooms with strong "liquidity", which are rooms that offer a high availability of games at the desired stake levels, in the currency of choice, and on a 24/7 basis.

## Other Revenue

Other revenue includes fees for software customization, advertising and marketing services generated from our portal business and fees associated with our e-cash business. Other revenue decreased 67.7% to \$1.1 million for the year ended December 31, 2010 when compared with the prior year (2009: \$3.5 million). Other revenue represented 4.4% of total revenue in 2010 (2009: 8.8%). The decrease in other revenue for the year ended December 31, 2010 was due to reduced commerce based transaction fees, partially offset by a one-time termination fee from a licensee generating an immaterial amount of revenue. The relative strength of the U.S. dollar did not have a material impact on other revenue during 2010 when compared with the prior year.

## Amortization of Royalties

The Company licenses various royalty rights, generally on an exclusive basis, from several owners of intellectual property rights. These rights are used to produce games for use in Hosted Casino and also as Branded Games. Generally, the arrangements require material prepayments of minimum guaranteed amounts which have been recorded as prepaid expenses in the accompanying consolidated balance sheets. These prepaid amounts are amortized over the life of the arrangement as gross revenue is generated or on a straight-line basis if the underlying games are expected to have an effective royalty rate greater than the agreed amount. The amortization of these amounts is recorded as a reduction in revenue.

Amortization of royalties increased 271.5% to \$3.1 million for the year ended December 31, 2010 when compared with the prior year (2009: \$0.8 million). Amortization of royalties represented (11.9)% of total revenue in 2010 (2009: (2.1)%). The increase in royalty amortization for the year ended December 31, 2010 was as a result of the Company's regular review of estimates of future revenue under its license arrangements which identified that it was appropriate to begin amortizing certain of these royalties on a straight-line basis, such that substantially all of these royalty payments are amortized on a straight-line basis. In 2010, the Company's net royalty payments were \$4.2 million (2009: \$5.4 million). The Company is committed to make further royalty payments of \$2.8 million.

## Player Restrictions

No revenue is derived from U.S. based players.

## Revenue Trends



The global economic downturn is impacting the Company's business.

While the global online gaming market continues to promise growth potential, competition is intensifying for players and market position.

It is expected that increased regulation of online gaming in key markets will also impact the Company's business in the future.

#### Recurring Revenue

CryptoLogic's licensing fees reflect a revenue model based on building long-standing relationships with customers. In 2010, 96.2% (2009: 91.6%) of CryptoLogic's fee revenue before amortization was generated from software licensing and services contracts that generate recurring revenue.

Geographical analysis of revenue before amortization is made according to the jurisdiction of the gaming license of the licensee. This does not reflect the region of the end users of the Company's licensees.

For the Years Ended December 31,	2010		2009		2008	
Malta	80	%	75	%	70	%
Gibraltar	15	%	20	%	25	%
Alderney	4	%	1	%	–	