

CRYPTOLOGIC LTD
Form 20-F
March 31, 2010

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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, 2009

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

(Exact name of Registrant as specified in its charter)

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Guernsey, Channel Islands

(Jurisdiction of incorporation or organization)

Marine House, Clanwilliam Place

Dublin 2

Ireland

(Address of principal executive offices)

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

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

Title of each class:	Name of each exchange on which registered:
Common Shares	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, 2009.

13,819,051 Common Shares (including 1,025,031 Exchangeable Shares)

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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

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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, 2009, 2008, and 2007 are disclosed in Note 21 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 11, 2010 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 and The Hulk 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 impact of recent new customers and expected additional customers to partially offset revenue lost from William Hill;

the success of our new growth strategy and restructuring program to reduce operating costs and return to profitability and positive cash flow;
expected revenue growth from branded games and hosted casino licensing in 2010;

potential new revenue sources in 2010 from gaming sites;

the increased liquidity and profitability (albeit at lower levels), and lower costs, resulting from outsourcing of our poker network;

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 similar

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,	2009	2008	2007	2006	2005
<i>(In thousands, except per share disclosure)</i>					
Revenue	\$ 39,794	\$ 61,526	\$ 73,659	\$ 104,022	\$ 86,307
Net (loss)/earnings and comprehensive (loss)/income	\$ (35,510)	\$ (32,738)	\$ 5,528	\$ 24,812	\$ 20,530
Basic (loss)/earnings per share	\$ (2.78)	\$ (2.55)	\$ 0.47	\$ 1.83	\$ 1.51
Diluted (loss)/earnings per share	\$ (2.78)	\$ (2.55)	\$ 0.47	\$ 1.81	\$ 1.46
Basic weighted average number of shares	\$ 13,820	\$ 13,888	\$ 13,891	\$ 13,558	\$ 13,588
Diluted weighted average number of shares	\$ 13,820	\$ 13,888	\$ 13,907	\$ 13,731	\$ 14,067
Total assets	\$ 63,370	\$ 105,806	\$ 170,633	\$ 184,520	\$ 154,398
Shareholders' equity	\$ 36,796	\$ 72,440	\$ 109,306	\$ 111,584	\$ 87,225
Share capital	\$ 33,916	\$ 33,552	\$ 33,407	\$ 29,096	\$ 25,171
Dividends per share	\$ 0.07	\$ 0.39	\$ 0.48	\$ 0.43	\$ 0.22

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 21 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,	2009	2008	2007	2006	2005
<i>(In thousands, except per share disclosure)</i>					
Net (loss)/earnings	\$ (36,669)	\$ (33,048)	\$ 5,640	\$ 25,636	\$ 20,530
Basic (loss)/earnings per share	\$ (2.87)	\$ (2.57)	\$ 0.48	\$ 1.89	\$ 1.51

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Diluted (loss)/earnings per share	\$ (2.87)	\$ (2.57)	\$ 0.48	\$ 1.87	\$ 1.46
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RISK FACTORS

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). 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, but this has met with substantial opposition. 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 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.

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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. It seems likely that the DCMS will recommend (in a report to be published imminently) 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

France has decided to license the Internet gambling sector in 2010 but only in relation to poker games and sportsbook currently. It is therefore anticipated that the previously aggressive enforcement stance adopted by the French authorities is likely to resume when this regime is in force against those operators that fail to obtain any local license. Moreover, the licenses look likely to be 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 will severely impede 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.

Moreover, the State Gambling Treaty expires on 31 December 2011, requiring Germany to address the issue of online gambling prior to this date. It may elect to adopt a similar regime to that implemented in France.

Italy

Recent willingness by the Italian government to regulate certain forms of Internet gaming could be perceived as indicative of a liberalization of the Internet gaming industry as a whole in that country. However, at present, the form of regulation put forward has failed to create attractive market conditions for many operators. As such, notwithstanding the fact that this market may appear to be liberalizing, in practice, Italy has not liberalized in a manner, or to a degree, that is helpful to the Company or its licensees. The Company and its licensees remain at

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risk that Italy may take aggressive action against parties whose operations are not licensed pursuant to the regulatory regimes established by this country and furthermore, the fact that some Internet gaming activity is permitted under license may be sufficient for Italy to resist any residual criticisms or enforcement initiatives by the EC.

Spain

Madrid's and Basque's regional governments have recently implemented new 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. Other regions may follow suit.

Holland

CryptoLogic's licensees presently accept wagers from the Dutch market. 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 block from the territory, and this cautious approach has been further exacerbated by the negative (recently published) opinion of Advocate General Bot in the case referred to the ECJ by Betfair and Ladbrokes which sought in effect to challenge the Dutch monopoly (the court normally follows the Advocate General's opinion). In the event that the Dutch 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.

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. In Denmark, the state monopoly on online gambling is being reconsidered by Danish government in light of EC criticism.

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.

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 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 and Germany. 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 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, the communications over 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, 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.

In fiscal 2009, our top 7 licensees accounted for approximately 82% (2008: 81%) of our total revenue. In addition, all our key licensees operate from a limited number of licensing jurisdictions.

In fiscal 2009, our top 7 licensees accounted for approximately 82% (2008: 81%) of our total revenue. 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 dependant 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.

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 positive or 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 or negative 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 estimations in several areas including, but not limited to, transfer pricing. Tax authorities may disagree with our estimations 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 and conduct 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 may be involved in litigation arising in the ordinary course and conduct 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.

On March 30, 2010, the Company delivered to Marvel a Statement of Claim regarding an alleged breach by Marvel of certain provisions of its agreement with the Company relating to the licensing of Marvel comic book characters to CryptoLogic. Any proceeding flowing from the said Statement of Claim must proceed by way of arbitration in the City of New York and under New York law, as per the contract with Marvel.

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 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 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.

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 expansion 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 expansion 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 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.

We may incur losses and further declines in revenue in future periods.

We have incurred losses in recent periods. We recorded a net loss of \$35.5 million for the year ended December 31, 2009, and a net loss of \$32.7 million for the year ended December 31, 2008. We may incur losses and further declines in revenue in the future periods. If we incur additional losses and our cash resources and financing options are insufficient, our 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 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.

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 its telephone number is 353-(0)1-234-0400.

Our head office provides executive functions to our corporate group. Our subsidiary, WagerLogic, through its offices in Cyprus, Malta and the U.K., provides 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 as well as all usual administrative functions.

B. BUSINESS OVERVIEW

We are a pioneer and a global leading software developer and services provider to the global Internet gaming market (excluding the U.S.). We are one of the industry's longest-established publicly traded online gaming software companies.

Through our WagerLogic subsidiaries in Cyprus, Malta and the U.K., we provide 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. We also offer access to a highly liquid poker room operated by GTECH, a third party. WagerLogic licenses our software products and provides services to an international client base (licensees or customers), while retaining ownership and control of the software. Our software offers a complete online gaming solution to our licensees, comprising:

A broad, turn-key Internet-based game suite providing a casino and access to a highly liquid poker room. Our game suite features:

- o more than 346 download and non-download casino table and slot games;
- o multi-languages (English, Spanish, Greek, Japanese, Chinese, French, German, Italian);
- o multi-currencies (U.S. dollars, British pounds and euro); and
- o multi-platforms (download, non-download (Java and Flash), wireless);

E-cash systems and support for player deposits and withdrawals;

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Business intelligence and data analysis tools to assist licensees in their marketing efforts;

Licensee support through WagerLogic's extended hour, multi-language customer support; and

Marketing support services, to assist licensees in developing and executing strategies for marketing their online gaming businesses.

2009 was an extremely difficult year for Cryptologic as the Company implemented its new strategy aimed at returning the Company to profitability and long-term growth against the backdrop of a severe global economic downturn, a slower than anticipated seasonal up-tick in fourth quarter revenue and unanticipated licensee-delays in the roll-out of branded games.

The new strategy, however, continues a tradition that the Company has of being a pioneer in the global Internet gaming market. 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 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. It also allows us to make our former competitors collaborative partners in our growth. It is a good example of the "build once, license often" model that has been and continues to be successful in the software industry.

Also, in order to effect this transition and plan for sustainable growth, it was critical that the Company distill its knowledge and understanding of games, the gaming industry and evolving technologies into a single environment, resulting in the creation of the Cryptologic Center for Innovation. This is a virtual group of people and partners committed to delivering innovative new products to our licensees and will act as a springboard for all of our future development activities.

Notwithstanding the foregoing, 2009 was distinguished around the world for generally poor and uncertain trading conditions and Cryptologic was not immune. This is reflected in our lower revenue as compared to 2008. Nevertheless, good progress was made on a number of fronts, including a significant number of new licensee signings; the creation of a healthy pipeline of future new business; more effective use of our Remote Development Centers; a simplification of our technology infrastructure, and a reduction in workforce and cost base.

Launching a new strategy in the midst of extremely challenging global macro-economic conditions tests the merits of any company's business model. We believe that ours has begun to prove itself capable of supporting long-term growth. Management is determined to focus on the development and support of the hosted casino business while continuing to build on the success of our branded games initiative by expanding our partnerships and broadening the types of games we offer. At the same time, we intend to maintain our downward pressure on our recurring cost base (down \$20.6 million in 2009) which has produced a leaner, smarter, more flexible business, that is capable not only of responding to changing market demands but, in some cases, leading them.

Cryptologic's strategy has three main elements:

Focusing on our core Internet hosted casino business. For five consecutive years, readers of *Gambling Online* magazine have voted our casino games the best in the industry. These award-winning games are complemented by a widely acclaimed support services structure. We intend to capitalize on this success by continuing to invest in new casino games which will further expand our respected portfolio.

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Licensing our best branded games to others, creating an attractive new revenue stream and turning former competitors into collaborators. The philosophy is simple: build once, license often. Through working with highly respected content providers and brand owners we have successfully delivered the likes of Spiderman, The Hulk and Batman to both our own hosted casino licensees and to the market in general, thus receiving a greater return from our investment dollar. Concentrating on being a leading innovator. By that we mean, not just developing and deploying new ideas, but new ideas that force the market to think and react.

For this strategy to be successful, it demands the establishment of an expanding network of licensees and channel partners, and once established, the strengthening, and deepening of those relationships. Cryptologic has forged excellent relationships with many licensees including two of the largest and most successful in the industry: 888.com and Party Gaming both of whom are deriving significant revenue and benefits from licensing a sample range of our products.

Our flexible business model and the quality of our offering allowed 2009 to be the most successful year in Cryptologic's history in terms of customer acquisition. Among the new signings and launches are such well known brands as:

Sky
Betfair
Unibet
Gala Coral
Virgin
Bet24
The Tote
Sportingbet
Victor Chandler

Additional product launches were achieved through our new brand licensing agreements with companies such as DC Comics, a division of Warner Bros, and Paramount as well as ongoing releases using brands licensed from the long-standing partners like CapCom and Marvel.

We believe these partnerships offer the potential for significant future growth based upon both the brand recognition and loyalty associated with these partners and their unique and distinctive intellectual property. This, however, is not enough. It is vital that a company the size of Cryptologic compete in a most effective manner and that means, to us, leading in innovation – namely, the ability to deliver offerings to the market that cause people to stop and take notice. Our goal is to set ourselves apart from our larger competitors, and also possible new entrants, by creating offerings that are both new and innovative. The goal is simple – create offerings and business models that cause others to play catch-up. Cryptologic's ability to reduce the development and deployment time for a game by 75% is a case in point. Further offerings in 2010 will serve as additional proof points.

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 Internet 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

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 or branded games, 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. The global e-gaming industry experienced a downturn in 2009 and continues to face challenges early in 2010.

In 2009, revenue was \$39.8 million (2008: \$61.5 million, 2007: \$73.7 million), with 91.2% (2008: 90.9%, 2007: 93.6%) of this amount represented by ongoing software licensing fees or royalties. Other revenue sources, which primarily included fees for software customization and advertising and marketing services generated from our portal business, accounted for 8.8% of total revenue (2008: 9.1%, 2007: 6.4%).

Fee revenue from our Internet casino business and branded game 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. \$30.0 million or 75.3% of our total revenue was derived from our casino business in 2009 (2008: \$41.8 million or 68.0%, 2007: \$49.5 million or 67.1%). Branded games revenue was \$2.8 million or 7.1% of our total revenue in 2009 (2008: \$0.3 million or 0.5%, 2007: NIL). Internet poker fees were \$3.5 million or 8.8% of total revenue in 2009 (2008: \$13.8 million or 22.4%, 2007: \$19.5 million or 26.5%).

As at December 31, 2009, we had 32 licensees located around the world, including well-known U.K. and global land-based gaming organizations, which operate under government authority where their Internet business subsidiaries are domiciled. Our top 7 licensees in 2009 accounted for approximately 82% of our total revenue (2008: 81%, 2007: 79%). All of our hosted casino licensees operate from one licensing jurisdiction serving customers based in multiple countries

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The Company's principal geographic markets are in the U.K. and Continental Europe:

For the Years Ended December 31,	2009	2008	2007
United Kingdom	48%	58%	49%
Europe	40%	33%	40%
United States	0%	0%	0%
Other	12%	9%	11%
Total ⁽¹⁾	100%	100%	100%

⁽¹⁾ The Company does not have revenue data by geographic market for its branded game licensees. Branded game revenue was 7.1% of revenue in 2009 and 0.5% of revenue in 2008 (2007: nil).

PRODUCTS AND SERVICES

Our Internet-based gaming and electronic commerce software products (i.e. hosted casino) are used by licensees to create virtual casinos. 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 gaming site, while the 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 them 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, and in such cases, the licensees report and remit licensing fees to us.

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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, 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.

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We also provide extended hour, multi language 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. Since 2008, the Company has introduced 38 slot and casino table games and brought many well known 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 *Cubis*, 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*, 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 II* arcade game.

New games, introduced in 2009, based on world-famous DC Comics characters such as *Superman*, *Batman*, *Wonder Woman* and others.

Having established exclusive relationships with major media companies such as Marvel Comics, DC Comics, a division of Warner Bros., and Paramount Digital Entertainment, we have created industry leading casino games, which are a key component of our hosted casino product. Through our branded games business, we are able to offer these games not only to our hosted casino customers, but to the entire industry at large.

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 and those sites owned by the Company's licensees – providing a known-name marketing channel and a player acquisition tool for licensees.

PATENTS AND OTHER INTELLECTUAL PROPERTY

Our general policy has been to seek patent protection for gaming innovations where proprietary rights will improve our competitive position. We hold a series of patents including one related to our *Millionaires Club* slot game, which offers million-dollar-plus online jackpots, and one related to our Multi-Hand Video Blackjack game. We also have patents pending on various other gaming innovations.

We also license intellectual property, generally on an exclusive basis, from third parties for use in our games including the world's first and only play-for-real, slot version of the popular gem-matching game, *Bejeweled*, and the Internet's first and only multi-currency jackpot video slot games featuring popular DC Comics action characters such as *Superman* and *Wonder Woman*.

See Item 3.Key Information Risk Factors

GLOBAL REGULATORY ENVIRONMENT

While the United Kingdom and other European jurisdictions such as Malta have currently adopted a regime which permits its licensees to accept wagers from any jurisdiction differing approaches are developing in other parts of Europe. Some European 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 limits supplies of gambling to a local monopoly 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 EU treaty law (governing the free movement of goods and services throughout the European Union) and case law rendered by the European Court of Justice (ECJ). However, although judgments of the ECJ had been critical of anti gambling laws in certain territories there have recently been several decisions and Advocate General opinions published which suggest that the restrictive approach adopted in some countries is now considered to be defensible. Nonetheless, the actions of the European Commission (EC) has looked at creating directives that could harmonize the treatment and operation of online gaming throughout the EU, which would be in line with the EC's goal of encouraging a free and open market throughout the entire union. There is no indication that any such directive will ever be introduced however, as there remains a great deal of political opposition. Moreover, the EC has also initiated infringement proceedings against some EU member states in relation to alleged 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.

Since 1995, online gaming has grown into a large, multi-billion dollar industry, but with regulatory inconsistencies among countries and limited formal regulation. Laws around the world are often outdated, ambiguous and continue to develop on a country-by-country basis.

On October 13, 2006, the U.S. enacted the UIGEA, which effectively banned online gaming in that country by making it illegal to process related financial transactions. The industry-wide impact of UIGEA has negatively affected our business by significantly reducing our revenue and earnings..

At the time the UIGEA was enacted, the entire U.S. market was estimated to represent approximately 50% of the global online gaming market (source: GBGC). However, the online casino and online poker markets outside the U.S., the core areas of our business, are expected to continue to grow. Prior to the enactment of UIGEA, approximately 70% of our licensees' revenue was derived from non-U.S. sources due to our global diversification strategy. Since 2002, we have focused on licensees that primarily target non-U.S. markets, most notably the U.K. and Continental Europe. After the UIGEA enactment, 100% of licensees' revenue came from outside the U.S.

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In September 2007, the UK Gaming Act came into force, which Act regulates online gaming 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 UK, or marketing into the UK, have now been enacted. However, there is no assurance that the UK 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 will have a material adverse effect on our customers, our business, revenues, operating results and financial condition. Indeed, 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. It seems likely that instead that the DCMS will recommend (in a report to be published imminently) 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.

Elsewhere in Europe the legislative environment continues to evolve, with some countries showing signs of following the U.K.'s lead to implement a licensing regime while others continue to protect state gambling monopolies. As emphasized, the EC has commenced infringement proceedings against various member states that are taking a protectionist approach—a development that we believe is favorable to the industry in Europe. While most decisions rendered by the ECJ over the past several years have been broadly favorable to the industry, it nonetheless upheld the Portuguese monopoly in the La Liga case and more recently there have been several Advocate General opinions published which would suggest that certain jurisdictions' protectionist approach is not going to be found by the ECJ to be contrary to EC treaty law (the court normally follows the Advocate General's views in the judgments given usually several months after the publication of the opinion).

CryptoLogic has long advocated a regulatory approach to foster a transparent, credible and growing online gaming industry. We believe that government plays an important role and is in the best position to regulate this industry to provide consumer protection, preserve the integrity of the online gaming industry, and build a credible and business-friendly marketplace. 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.

For more information regarding the global regulatory environment in which the Company and its licensees do business, refer to "Risks Related to the Industry" under Item 3. Key Information.

COMPETITIVE ENVIRONMENT

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 our competitors. 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.

Licensees of our software and branded games 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.

While it is difficult to confirm the exact number of Internet gaming sites since most companies are private, GBGC estimates there are around 2,400 online gaming properties down from more than 2,800 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 an enhanced entertainment experience.

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.

The bulk of CryptoLogic's revenue is generated through gaming activity in Europe. Many parts of Europe continue to experience a deep recession, which has negatively impacted the company's revenues. Revenue recovery for the company will in part depend on a broader recovery of economic conditions in key European markets.

C. ORGANIZATIONAL STRUCTURE

The organizational structure of the Company as of December 31, 2009 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 our corporate group. Our subsidiary CryptoLogic Inc. is located in Canada, and provides software development, upgrades and technical support for our WagerLogic Limited subsidiary. With offices in Cyprus, Malta and the U.K., the WagerLogic group of companies provides software, licensing 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. During 2010, the Company intends to move its operations currently performed in Cyprus to Malta. 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 for use with the licensee. Our AdsDotCom subsidiary offers marketing services to our hosted casino licensees. Our CryptoLogic Asia subsidiary is responsible for advancing the Company's strategy and business development in Asia.

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CryptoLogic Exchange Corporation and CryptoLogic Callco ULC exist solely to facilitate the exchange of shares for CryptoLogic Limited in connection with the Arrangement (refer to page 1 of this annual report for further information regarding the Arrangement).

D. PROPERTY, PLANTS AND EQUIPMENT

The following table sets forth the Company's principal leased properties.

Company	Location	Principal Use	Approx. Area (sq. ft.)	Term of Lease	Current Rent (per annum or to completion of term)
CryptoLogic Limited	Dublin, Ireland	Head office	5,400	4 years 10 months	182,758
CryptoLogic Limited	Dublin, Ireland	Head office	1,440	3 years 6 months	47,995
CryptoLogic Inc.	Toronto, Canada	Research and development	40,834	7 months	C\$779,385
CryptoLogic Inc.	Toronto, Canada	Research and development	11,426	7 months	C\$218,084
WagerLogic Limited	Nicosia, Cyprus	Software licensing and support	5,080	6 months	26,715
Ads Dot Com Limited	London, England	Marketing support	4,880	3 years 5 months	£291,556
WagerLogic Malta Software Limited	Msida, Malta	Software licensing and support	12,917	10 years	96,000

In December 2009, in accordance with the rental agreement, the Company exercised its right to exit the leasehold premises in Toronto and recorded termination costs of \$1.8 million payable on termination in July 2010.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP. The significant measurement differences between Canadian GAAP and U.S. GAAP for the years ended December 31, 2009, 2008 and 2007 are disclosed in Note 21 to our audited consolidated financial statements for the years ended December 31, 2009, 2008 and 2007.

The following discussion should be read in conjunction with our consolidated financial statements and related notes for the years ended December 31, 2009, 2008 and 2007 as set out in this annual report under Item 17. Financial Statements.

OVERVIEW

2009 was an extremely difficult year for Cryptologic as the Company implemented its new strategy aimed at returning the Company to profitability and long-term growth against the backdrop of a severe global economic downturn, a slower than anticipated seasonal up-tick in fourth quarter revenue and unanticipated licensee-delays in the roll-out of branded games.

The new strategy, however, continues a tradition that the Company has of being a pioneer in the global Internet gaming market. 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 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. It also allows us to make our former competitors collaborative partners in our growth. It is a good example of the "build once, license often" model that has been and continues to be successful in the software industry.

Also, in order to effect this transition and plan for sustainable growth, it was critical that the Company distill its knowledge and understanding of games, the gaming industry and evolving technologies into a single environment, resulting in the creation of the Cryptologic Center for Innovation. This is a virtual group of people and partners committed to delivering innovative new products to our licensees and will act as a springboard for all of our future development activities.

Notwithstanding the foregoing, 2009 was distinguished around the world for generally poor and uncertain trading conditions and Cryptologic was not immune. This is reflected in our lower revenue as compared to 2008. Nevertheless, good progress was made on a number of fronts, including a significant number of new licensee signings; the creation of a healthy pipeline of future new business; more effective use of our Remote Development Centers; a simplification of our technology infrastructure, and a reduction in workforce and cost base.

A STRATEGY FOR SUSTAINABLE GROWTH

Launching a new strategy in the midst of extremely challenging global macro-economic conditions tests the merits of any company's business model. We believe that ours has begun to prove itself capable of supporting long-term growth. Management is determined to focus on the development and support of the hosted casino business while continuing to build on the success of our branded games initiative by expanding our partnerships and broadening the types of games we offer. At the same time, we intend to maintain our downward pressure on our recurring cost base (down \$20.6 million in 2009) which has produced a leaner, smarter, more flexible business, that is capable not only of responding to changing market demands but, in some cases, leading them.

Cryptologic's strategy has three main elements:

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Focusing on our core Internet hosted casino business. For five consecutive years, readers of Gambling Online magazine have voted our casino games the best in the industry. These award-winning games are complemented by a widely acclaimed support services structure. We intend to capitalize on this success by continuing to invest in new casino games which will further expand our respected portfolio.

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Licensing our best branded games to others, creating an attractive new revenue stream and turning former competitors into collaborators. The philosophy is simple: build once, license often. Through working with highly respected content providers and brand owners we have successfully delivered the likes of Spiderman, The Hulk and Batman to both our own hosted casino licensees and to the market in general, thus receiving a greater return from our investment dollar. Concentrating on being a leading innovator. By that we mean, not just developing and deploying new ideas, but new ideas that force the market to think and react.

For this strategy to be successful, it demands the establishment of an expanding network of licensees and channel partners, and once established, the strengthening, and deepening of those relationships. Cryptologic has forged excellent relationships with many licensees including two of the largest and most successful in the industry: 888.com and Party Gaming both of whom are deriving significant revenue and benefits from licensing a sample range of our products.

Our flexible business model and the quality of our offering allowed 2009 to be the most successful year in Cryptologic's history in terms of customer acquisition. Among the new signings and launches are such well known brands as:

Sky
Betfair
Unibet
Gala Coral
Virgin
Bet24
The Tote
Sportingbet
Victor Chandler

Additional product launches were achieved through our new brand licensing agreements with companies such as DC Comics, a division of Warner Bros, and Paramount as well as ongoing releases using brands licensed from the long-standing partners like CapCom and Marvel.

We believe these partnerships offer the potential for significant future growth based upon both the brand recognition and loyalty associated with these partners and their unique and distinctive intellectual property. This, however, is not enough. It is vital that a company the size of Cryptologic compete in a most effective manner and that means, to us, leading in innovation – namely, the ability to deliver offerings to the market that cause people to stop and take notice. Our goal is to set ourselves apart from our larger competitors, and also possible new entrants, by creating offerings that are both new and innovative. The goal is simple – create offerings and business models that cause others to play catch-up. Cryptologic's ability to reduce the development and deployment time for a game by 75% is a case in point. Further offerings in 2010 will serve as additional proof points.

PRODUCT PERFORMANCE

As a developer of software, one of Cryptologic's particular strengths is its ability to bring new products to the market quickly and cost effectively. This necessitates a very close working relationship with our brand and content suppliers (the likes of Paramount, DC Comics NextGen, etc.), our Remote Development Centers, our Innovation Center, our Business Development Group and, naturally, our licensees. For the brand and content suppliers we are a very attractive route to market, as manifested by the 20 new licensees we added to our client base in 2009.

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We began the year under review with just 3 branded games live and ended with 66. Whilst this is, in fact, lower than originally planned and was also skewed heavily towards the latter part of the year, we are confident that the roll out will continue to gain momentum in 2010. The 66 games rolled out thus far represent only about 35% of the games for which we have contracts.

During 2009, our licensee base rose from 14 to 32 and our expanded portfolio of branded games including:

Superman

Wonder Woman

Batman

King Kong

Call of Duty

Streetfighter II

In addition to those listed above we also launched a series of other in-house games that proved very popular. These included *Jenga*, *Samba Nights*, *Monkeys to Mars*, *Aces and Faces*, *Casinomeister*, *Millionaire's Club III* and *Roamin' Gnome*. Our goal is to continue to provide excellent game content supported by innovative game mechanics and bonuses.

NEW DEVELOPMENTS

To lead the gaming industry has always been Cryptologic's aim. We are determined to maintain our proud track record of introducing new games to the market which people around the world want to play. That means always ensuring that the quality of our products and our customer support is second to none. It also means putting innovation at the center of everything we do.

An example of this is the unveiling of our new lobby for our Internet casino software, which represents a further important industry advance. Using the newest interactive technology, the lobby enables improved navigation and search, an updated jackpot counter, customized features that allow people to keep track of their favorite games, and a game suggestion engine to connect the player to other Cryptologic games. In all, the look and feel and the ease of use will add to the "stickiness" of the offering - a key element on any online business.

Cryptologic, through market awareness and focus groups, is acutely aware of the fact that the e-gaming market will continue to evolve rapidly in numerous ways. We know that social networking, peer-to-peer (one-to-one) gaming, 3D, mobile gaming, subscription gaming, games of skill, tournament and league-based gaming are all aspects of the future.

In order to address these demands we created the Cryptologic Center for Innovation. It is through this group that we were able to bring a new product to market, from concept to release, in four months - something that would, in the past, have taken up to 12 months.

As we move into 2010 we anticipate the launch of our first 3D games and also a game that will allow a player to play for fun, play for money, play against the house or play against a friend all in a single instance of the game.

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It is not just a question of being able to produce good games and game concepts but it is vital also to understand emerging technologies. In 2009, an investment of Cryptologic (in which we hold a minority interest) explored some of the cutting edge capabilities of the iPhone and through Warner Bros released a Harry Potter application which, using the accelerometer functions of the iPhone, allowed a dueling contest to take place phone to phone via Bluetooth or over the Internet. It is easy to see how the application of this capability can be used in dice based games such as craps or backgammon again, a technological segue into social networking and gaming.

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These are just a few examples of the technologies we intend to bring to the market.

We believe that the new business model, our creativity and innovative approach always looking into the future but executing day to day is the right one for the long-term growth of the Company.

OUTLOOK

The global e-gaming industry experienced a downturn in 2009 and continues to face challenges early in 2010. According to Global Betting and Gaming Consultants, the market is expected to recover in the long term, and the size of the market (excluding North America) is set to rise from \$10.7 billion in 2008 to an estimated \$14.9 billion in 2012. Cryptologic is well placed to enhance its position in the industry but only if we stay focused and lean, and capable of responding to changing market expectations and delivering products and service levels of the highest quality.

We have been successful in 2009 in driving down the recurring cost base in the business by some \$20.6 million when compared to 2008. This has involved many difficult decisions, including reducing the workforce by 25%. Additionally, we have made changes to our operational infrastructure including a material reduction in the number of servers we operate. We have also reduced the number of data centers we utilize from 11 to 5. These changes, which have not affected productivity or service levels, have consolidated our infrastructure and were necessary in order to maintain competitiveness.

Looking forward, we believe the buoyant European market offers the greatest scope for growth. The UK market is mature and stable and, whilst its true to say the EU regulatory framework is still evolving, we remain convinced that Europe looks set to dictate the direction the industry takes in the period ahead. Our goals for 2010 are:

Improved revenue from hosted casino as new licensees go live and existing licensees benefit from investment in major rebranding, a new lobby and advertising initiatives;

Branded games continue to gain momentum with the annual run rate currently at \$5 million as more games come on stream;

Number of new branded games launched by licensees to date and generating revenues currently at 93, with a backlog of approximately 115 games; and

Costs expected to reduce further in 2010 as additional measures are implemented to manage overheads.

We continue to monitor conditions in Asia where the current regulatory environment represents a hurdle to progress. Longer term, however, such markets may provide some interesting opportunities for Cryptologic.

Whilst the US market has effectively been closed since the passing of the Unlawful Internet Gaming Enforcement Act in October 2006, there are some indications that the market may re-open. We continue to monitor the situation closely and are examining various options that would allow us re-entry at the appropriate time.

A. OPERATING RESULTS

Comparison of 2009 and 2008

Revenue

CryptoLogic recorded revenues for the year ended December 31, 2009 of \$39.8 million, a decline of 35.3% (2008: \$61.5 million).

Licensing fees and services from our casino licensees, both Internet casinos and Branded Games, are calculated as a percentage of a licensee's level of activity in its online casino site. 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 fees for entry into poker tournaments.

Internet Casino

Internet casino revenue decreased to \$30.0 million or 28.4% for the year ended December 31, 2009 (2008: \$41.8 million).

Fees or licensing revenue from our casino business is 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 turn, these results are influenced by a number of factors such as the entertainment value of the CryptoLogic developed games, the frequency and success of new offerings and the effectiveness of the licensee's marketing programs. Internet casino revenue is 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.

This decrease in revenue is due to the stronger U.S. dollar in relation to both the euro and the British pound, general macro-economic conditions and poor performance of two of the Company's major licensees as well as a non recurring \$1.0 million benefit recorded in 2008 associated with a reduction in expected royalty payments. The relative strength of the U.S. dollar negatively impacted revenue by \$3.1 million. After normalizing for the impact of the strength of the U.S. dollar, Internet casino revenue decreased by approximately 21.0% in 2009. Partially offsetting these decreases was \$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 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.

Internet casino licensing and associated support fees constitute our core revenue base, representing 75.3% of our total revenue in 2009 (2008: 68.0%). While casino fees declined in absolute dollars they have increased as a percentage of total revenue because of the success of new games and the decline in poker.

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We intend to continue delivering a succession of new product innovations, thereby generating additional activity and interest in our licensee sites. This in turn generates online licensee fees which will grow our casino business. While online casino fee revenue growth outside the U.S. is predicted to remain strong, we expect organic growth will be insufficient to return to the 2006 revenue base in the short term. Consequently we continue to aggressively explore other alternatives including new licensees to increase revenues and continue to control costs as we grow revenues outside of the U.S. and return to those levels of earnings.

Internet Poker

Internet poker licensee fees declined 74.4% to \$3.5 million for the year ended December 31, 2009 (2008: \$13.8 million). The decrease in Internet poker revenue is primarily due to the transition of our poker network to

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GTECH, which reduced the number of the Company's poker licensees and increased fees paid to GTECH, the relative strength of the U.S. dollar and a decline in the overall poker industry. In March 2009, the Company completed its outsourcing of its hosted poker business to GTECH, which gives CryptoLogic's poker licensees and players access to a larger network at significantly lower cost to CryptoLogic. As expected, poker revenue declined as a small number of significant poker licensees did not migrate to GTECH and the fees that we earned were reduced by amounts paid to GTECH. The migration to the GTECH poker room has resulted in larger declines in poker revenue than expected. In 2009, the U.S. dollar was significantly stronger when compared to the euro and British pound when compared to the same period in 2008, negatively impacting poker revenue by approximately \$0.6 million. Poker fees were 8.8% of total 2009 revenue (2008: 22.4%).

Branded Games

Branded games revenue was \$2.8 million for the year ended December 31, 2009 (2008: \$0.3 million). Branded games revenue accounted for 7.1% of total revenue in 2009 (2008: 0.5%). During the year, the Company's revenue producing games increased from 3 to 66 games at the end of the 2009. The majority of the games delivered were in the second half of the year including 20 games in the third calendar quarter and 33 games in the fourth quarter. The Company expects branded game revenue to increase in 2010 as it benefits from a full year of revenue on games delivered in 2009 and from increases in the number of revenue producing games.

Branded games revenue has a build once, license often model generating significant economies of scale and is delivered at a substantially lower cost than Internet casino revenue as the games are hosted and maintained directly by the licensee. The branded games are generally delivered by platform providers, at their own cost, and are then made available to our mutual customers. Once delivered, licensing revenue is calculated as a percentage of a licensee's level of activity in their online casino sites. Branded games revenue is affected by the number of active players on the licensee's site and their related gaming activity.

On March 30, 2010, the Company delivered to Marvel a Statement of Claim regarding an alleged breach by Marvel of certain provisions of its agreement with the Company relating to the licensing of Marvel comic book characters to CryptoLogic. Any proceeding flowing from the said Statement of Claim must proceed by way of arbitration in the City of New York and under New York law, as per the contract with Marvel.

During 2009, the Company continued to expand its portfolio of branded content including securing additional royalty rights with DC Comics, a division of Warner Bros., for the use of *Batman*, *Superman* and *Wonder Woman*, among others and with Paramount Digital Entertainment for a collection of approximately 20 feature films. Including these additional royalty rights into our portfolio, which also includes Marvel characters, *King Kong*, *Jenga* and *Bejeweled*, will allow the Company to strengthen ongoing interest in its products, allow it to expand its licensees for both Internet Casino and branded games and better allow its licensees to attract customers to their respective sites.

Other Revenue

Other revenue, which includes fees for software customization, advertising and marketing services generated from our portal business and fees associated with our ecash business, decreased to \$3.5 million or 37.4% (2008: \$5.6 million). The decrease in other revenue is primarily due to a decrease in software customization due to timing of completion of certain projects and decreased advertising services associated with our portals business. Offsetting this decrease was an increase in ecash recoveries. Other revenues accounted for 8.8% of total revenue (2008: 9.1%).

International Diversification

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

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Our ability to succeed in these markets depends on our licensee roster, which includes some of the most respected names in European gaming. The United Kingdom's 2005 enactment of a law to regulate online gaming continues to foster favorable growth and increased competition in the Internet gaming industry, for our customers and for CryptoLogic. With the relocation of all licensee operations to Malta, a member of the European Union, access to the European markets is strengthened. CryptoLogic continues to build partnerships, develop products, and pursue new markets.

Recurring Revenue

CryptoLogic's licensee fees reflect a revenue model based on building long-standing relationships with customers. In 2009, 91.2% (2008: 90.9%) of CryptoLogic's fee revenue was generated from software licensing and services contracts that generate recurring revenue.

Expenses

Consistent with prior years, during 2009 we incurred expenses in five categories: operating, general and administrative, reorganization charges, finance and amortization. Additionally, due to several factors including the decision to merge its poker room and macro-economic factors, the Company has recorded poker room integration costs, asset impairments and impairment of goodwill.

In 2009, total expenses decreased 22.1% to \$77.6 million (2008: \$99.6 million) primarily due to the impact of our cost reduction program which reduced operating and general and administrative expense. Offsetting these decreases were impairments of assets and impairment of goodwill. In 2009, the Company recorded approximately \$24.8 million in non-recurring charges, of which approximately \$3.0 million represents future cash outlays primarily on lease termination costs in Toronto and employee severance.

We continue to focus on maintaining close control over all discretionary expenditures as we align to the new market environment. We expect our costs to decrease in absolute terms in 2010, as we execute on the reorganization plan announced in Q4 2008 and expanded in Q4 2009.

Operating Expense

CryptoLogic's operating expense comprises development and support expense, which includes all personnel costs, equity compensation costs for employee stock options, licensee support, marketing, e-cash systems and support costs, customer service expense, and expenses related to regulatory compliance.

Costs associated with software development are expensed as incurred unless costs meet the criteria for deferral and amortization under Canadian Generally Accepted Accounting Principles (Canadian GAAP).

In 2009, operating expense decreased by 28.4% or \$15.8 million to \$39.9 million (2008: \$55.6 million). In 2009, operating expenses were 100.2% of revenue (2008: 90.4%). The decrease in operating expense was primarily due to the Company's cost reduction program executed in connection with its reorganization plan, which included outsourcing the poker room to GTECH, reduced headcount and related costs, consulting costs and IT infrastructure costs. Operating expense also benefited from decreased ecash processing fees resulting from renegotiation of its contract terms and lower deposit levels due primarily to the migration of poker to GTECH as well as reduced marketing program related costs that we share with certain licensees. Operating costs have also benefitted by the strengthening of the U.S. dollar, which reduced operating expenses by \$3.3 million in 2009. A strong U.S. dollar is generally favorable on expenses as they are generally denominated in Canadian dollars, euro and British pounds. Operating expense in 2009 also benefited from more active management of risks associated with foreign exchange

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movements. In 2008, the Company recorded a \$6.1 million loss on foreign exchange and there was no similar loss recorded in 2009. Offsetting these decreases were increased investment in software development capability in lower cost jurisdictions.

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We must continue our investment in our core product and services to help licensees grow market share and player loyalty despite the reduction in revenue. Consequently we have gaming capacity for additional licensee fees that we are aggressively looking to fill.

At December 31, 2009, CryptoLogic had 211 employees dedicated to implementing our strategy in a competitive and increasingly sophisticated market, down from 276 a year earlier.

General and Administrative Expense

General and administrative (G&A) expense includes overhead and administrative expense, travel expense and professional fees relating to our business development, infrastructure and public company listings.

In 2009, G&A expense was \$10.2 million or 25.6% of revenue (2008: \$13.7 million or 22.2%).

The decrease in G&A expense in 2009 as compared with 2008 is a result of decreased professional fees associated with our annual audit and compliance with Sarbanes Oxley, reduced expenses for tax planning, and decreased consulting fees associated with the protection of our intellectual property. G&A expense was also positively impacted by decreased occupancy costs due to subleasing certain vacant office space.

Reorganization Charges

In November 2008, we announced a plan for reorganization of our business focused on reducing costs by outsourcing non core activities, including integrating its poker network with one of the world's leading gaming technology and services companies, transitioning certain functions to lower cost jurisdictions and eliminating certain redundant functions. Due to continued unfavorable macro-economic conditions and lower revenue than expected, we expanded our reorganization plan and will outsource additional technology infrastructure activities, consolidate additional data centre operations, and migrate additional functions to lower cost jurisdictions. This reorganization plan will result in further reductions in headcount related costs, lease termination costs due to a reduction of our leased office space in both Canada and Cyprus, and associated asset impairments. Reorganization expense recorded in 2009 was \$7.1 million and comprises professional fees required to execute the plan of \$1.1 million, severance of \$1.1 million, lease termination costs associated with the office space in Canada of \$1.8 million and associated asset impairments of \$3.1 million. The Company expects further cash outlays of \$3.0 million, primarily on lease termination costs in Toronto and employee severance, to fully execute the restructuring plan.

Amortization

Amortization expense is based on the estimated useful lives of the assets and includes the amortization of our investments in computer equipment, leasehold improvements, software licenses, and intangible assets to support our business activities.

Amortization expense was \$4.9 million, or 12.2% of revenue (2008: \$5.9 million or 9.6%). The decrease in amortization reflects lower investments in computer equipment, and software licenses and the impact of asset write downs completed in Q4 2008.

Poker-Room Integration Costs

During 2008, the Company announced its plans to integrate our poker operations with a third party poker network. Accordingly the Company identified certain assets including software development projects and certain program costs where their carrying value exceeded the fair value of these assets. Poker room integration costs include poker related program costs of \$2.5 million as well as the write off of in process software development projects of \$0.4 million and other costs of \$0.2 million.

Asset Impairments

The Company regularly reviews its assets for impairment. During 2009, the Company reviewed its long term investments and noted various indicators of impairment including significant financial difficulty, restructuring activities and limited ability to operate a profitable business in the short and medium term. Furthermore, our book value was significantly in excess of our market capitalization, which was a further indication that our long-term investments may be impaired. Consequently, the Company determined that the carrying value of its long term investments in Mobilebus, Mikoishi, Jingle and 568 Inc. were greater than their respective fair values resulting in an impairment charge of \$6.3 million. The fair value of the investments was determined by discounting expected net future cash flows. The Company also reviewed certain software development projects as a result of difficult macro-economic conditions and a decline in expected future revenues, which resulted in an impairment charge of \$2.7 million.

During 2008, the Company determined that the carrying values of certain software development projects and intangible assets exceeded their fair value and recorded a charge of approximately \$6.7 million and \$7.2 million, respectively. Furthermore, the Company determined that the carrying value of its investment in Mikoishi, a game developer located in Singapore, was greater than its fair value and recorded a \$2.2 million charge.

Impairment of Goodwill

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. During the year, the results of the portals business were below expectations and the book value of the Company was significantly in excess of its market capitalization, which were both indications that the value of its goodwill was impaired. The fair value of the goodwill was determined by discounting expected net future cash flows of the portals business. As a result, the Company decided that the carrying value of the goodwill exceeded its fair value and recorded an impairment charge of \$6.5 million.

Departure Costs of Former CEO

In February 2008 the former President and CEO departed the Company. The Company recorded an associated charge of approximately \$3.4 million which included departure payments of approximately \$2.9 million and related professional fees of \$0.5 million.

Interest Income

Interest income, comprising interest earned on cash and short term investment balances, declined to \$0.4 million in 2009 (2008: \$2.1 million). The decrease was as a result of lower cash balances due primarily to cash used in operating activities and lower interest rates earned on cash deposits.

Provision for Income Taxes

In 2009, despite large operating losses, we recorded an income tax expense of \$1.1 million (2008: net benefit of \$0.5 million) as the impairments of our long term assets, goodwill and certain asset impairments associated with our restructuring are not immediately deductible for tax purposes and in some cases may never be deductible. The tax expense recorded in 2009 is also impacted by a \$2.2 million impairment of future tax assets accumulated in jurisdictions where recoverability is no longer probable. The recoverability of the future tax assets is no longer considered probable due to expected changes in the corporate structure which will reduce operations in certain jurisdictions where losses had accumulated. Offsetting this tax expense is a benefit of \$1.7 million recorded in the first quarter of 2009.

The tax benefit of \$1.7 million recorded in the first quarter of 2009 is primarily a result of recent amendments to Section 261 of the Income Tax Act in Canada that permit certain corporations resident in Canada to elect to determine their Canadian tax amounts in the corporation's functional currency as opposed to the

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general requirement that all amounts that are relevant to the computation of tax under the Canadian Income Tax Act be in Canadian dollars. This change resulted in a benefit to income tax of approximately \$1.4 million in the first quarter of 2009. The Company recorded an additional benefit of approximately \$0.3 million based on the actual tax return filed.

CryptoLogic is subject to tax in many jurisdictions. The Company is actively working to reduce the number of its subsidiaries, which will reduce the overall tax burden. The consolidated net operating loss is composed of operating losses in some jurisdictions and operating profits in others which results in a tax expense despite material consolidated net losses. Subject to significant changes in the tax rates of those jurisdictions or significant changes in our corporate structure, we generally expect a blended tax rate of approximately 15%, once we return to profitability.

Minority Interest

Pursuant to a business reorganization completed in 2007 (the Arrangement), CryptoLogic 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. As part of the Arrangement, the Company issued to shareholders of CryptoLogic Inc. either an equivalent amount of common shares of the Company or, in the case of taxable Canadian residents, exchangeable shares (Exchangeable Shares) of CryptoLogic Exchange Corporation (CEC), an indirect subsidiary of the Company. The Exchangeable Shares are, as nearly as practicable, the economic equivalent of CryptoLogic's common shares. The Exchangeable Shares participate equally in voting and dividends with the shareholders of the Company. No additional Exchangeable Shares have been or will be issued. For more information, see the Management Information Circular dated April 23, 2007 available on www.sedar.com. For accounting purposes, the Arrangement has been accounted for using the continuity of interest method, which recognizes the Company as the successor entity to CryptoLogic Inc. Accordingly, financial information reflects the financial position, results of operations and cash flows as if the Company 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 GAAP.

The common shares of the Company owned by CEC are considered a non-controlling interest of the Company for accounting purposes only and consequently, a proportional amount of the net earnings before minority interest is recorded as minority interest.

Minority interest will continue until all Exchangeable Shares have been exchanged into common shares of the Company or until June 1, 2014 when CEC will redeem all outstanding Exchangeable Shares in return for common shares of the Company.

Net (Loss)/Earnings

CryptoLogic recorded a net loss of \$35.5 million for the twelve months ended December 31, 2009 as compared with net loss of \$32.7 million for the same period in 2008. The net loss was primarily due to decreased poker and casino revenues, and \$24.8 million in non recurring charges consisting of impairments of long term investments, reorganization costs including severance costs, costs to exit lease obligations and the write off of associated capital assets, impairment of future tax assets, and the impairment of goodwill. The non-recurring charges include approximately \$3.0 million representing future cash outlays primarily on lease termination costs in Toronto and employee severance. Offsetting these amounts were increased revenue from Branded Games and decreased operating and G&A expenses.

Foreign Exchange

Our financial results are reported in U.S. currency, which is subject to fluctuations in respect of the currencies of the countries in which we operate, including British Pounds, euro, and Canadian Dollars. Accordingly, fluctuations in the exchange rate of world currencies could have a positive or negative effect on our

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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.

In 2009, the Company recognized a total foreign exchange loss of \$0.3 million (2008: \$6.2 million, 2007: foreign exchange gain of \$0.68 million), which is recorded as an operating expense in the accompanying consolidated statements of earnings.

Government Regulation

On October 13, 2006, the U.S. enacted the UIGEA, which effectively banned online gaming in that country by making it illegal to process related financial transactions. The industry-wide impact of UIGEA has negatively affected our business by significantly reducing our revenue and earnings. Similar prohibition legislation may be adopted in other jurisdictions.

While the U.K. and other European countries such as Malta and Gibraltar are adopting a regulated online gaming approach, opposing views are developing in Europe. Some European countries, including Italy, Germany and France are taking action aimed at banning foreign online gaming operators, in many cases to protect state sponsored monopolies. The European Commission has commenced infringement proceedings against some member states that are taking a protectionist approach a development that we believe is favorable to the industry in Europe. While most decisions rendered by the ECJ over the past several years have been favorable to the industry, the court has been careful to confirm, most recently in the *Santa Casa* decision related to the Portuguese market, that state sponsored monopolies may be established in compliance with EU treaty law, if done so in the appropriate manner and for the appropriate reasons.

There can be no assurance that legislation prohibiting Internet gaming or regulating various aspects of Internet gaming or the Internet gaming industry will not be proposed and passed in potentially relevant jurisdictions. The burden of compliance with any such legislation may have a material adverse effect on our business, financial condition and results of operations.

Comparison of 2008 and 2007

Revenue

CryptoLogic recorded revenues for the year ended December 31, 2008 of \$61.5 million, a decline of 16.5% (2007: \$73.7 million).

Licensing fees and services from our casino licensees are calculated as a percentage of a licensee's level of activity in its online casino site. 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 fees for entry into poker tournaments.

Internet Casino

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Internet casino fee revenue decreased to \$42.2 million or 14.7% for the year ended December 31, 2008 (2007: \$49.5 million).

Fees or licensing revenue from our casino business is 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 turn, these results are influenced by a number of factors such as the entertainment value of the CryptoLogic developed games, the frequency and success of new offerings and the effectiveness of the licensee's marketing programs. Internet casino revenue is also impacted by the relative strength of the U.S. dollar

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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. dollar, our functional currency.

In 2008, Internet casino fee revenue benefited from a \$1.0 million reduction in expected royalty payments. In 2007, Internet casino fee revenue benefited from two non-routine items recorded during the year, a revision of our estimate to discharge future jackpot payouts of \$4.5 million as well as a \$2.0 million reduction in our accrual for contingencies. After normalizing for these items, Internet casino revenue decreased by approximately 4.2% in 2008. This decrease in revenue is due to the stronger U.S. dollar in relation to both the euro and the British pound, the poor performance of a major licensee as well as general macro-economic conditions which primarily impacted the final quarter of fiscal 2008. The decrease in revenue is offset in part, by efforts to replace the business lost due to the passage in the U.S. of the Unlawful Internet Gambling Enforcement Act (UIGEA) by expanding in other markets primarily continental Europe and the successful release of its newest line-up of casino games.

Internet casino licensing and associated support fees constitute our core revenue base, representing 68.5% of our total revenue in 2008 (2007: 67.1%). While casino fees declined in absolute dollars they have increased as a percentage of total revenue because of the success of new games and the decline in poker.

We intend to continue delivering a succession of new product innovations, thereby generating additional activity and interest in our licensee sites. This in turn generates online licensee fees which will grow our casino business. While online casino fee revenue growth outside the U.S. is predicted to remain strong, we expect organic growth will be insufficient to return to the 2006 revenue base in the short term. Consequently we continue to aggressively explore other alternatives including new licensees to increase revenues and continue to control costs as we grow revenues outside of the U.S. and return to record levels of earnings.

Internet Poker

Poker fees remain a significant revenue contributor to the overall revenue of CryptoLogic at 22.4% of total 2008 revenue (2007: 26.5%). However, our Internet poker licensee fees declined to \$13.8 million or 29.2% (2007: \$19.5 million) primarily due to a slowing of growth in European poker.

CryptoLogic offers a virtual central poker room for its licensees. 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. Online poker revenue is 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. dollar, our functional currency. Players prefer poker rooms with strong liquidity rooms that offer high availability of games at the desired stake levels, in their currency of choice, on a 24/7 basis. During the year, the Company announced plans to merge its major poker customers into a third party international poker network during the first quarter of 2009. We expect this integration to decrease poker revenues in absolute terms, but decrease costs associated with delivering poker revenues at a greater rate.

Other Revenue

Other revenue increased to \$5.6 million or 19% (2007: \$4.7 million), which included fees for software customization and advertising and marketing services generated from our portal business. The increase in other revenue is primarily due to a \$1.2 million benefit associated with a review of our e-cash operations, which resulted in a reduction in expected future payments as well as increased advertising revenues associated with our portal business due to the acquisition of casino.co.uk. Partially offsetting these increases were fewer commerce based transactions. Other revenues accounted for 9.1%

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Recurring Revenue

CryptoLogic's strong recurring licensee fees reflect the strength of a revenue model based on building long-standing relationships with premium customers. In 2008, 90.9% (2007: 93.6%) of CryptoLogic's fee revenue was generated from software licensing and services contracts that generate recurring revenue.

During 2008, we began licensing individual branded games to leading online gaming companies and have secured several contracts which we will earn revenue on a revenue share basis. During 2009, the Company expects to complete the deployment of the games and is expected to generate significant revenue in 2009 and beyond. In addition, we have secured additional royalty rights including arrangements with DC Comics for the use of *Batman* and *Superman* and with Paramount Digital Entertainment for a collection of approximately 20 feature films. These additional royalty rights will provide ongoing interest in products, and better allow our licensees to attract customers.

Seasonality

Historically, the Group has experienced 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. Historically, the first and fourth quarters (during the winter and autumn seasons) have been the strongest revenue periods.

Expenses

Consistent with prior years, during 2008 we incurred expenses in five categories: operating, general and administrative, reorganization charges, finance and amortization. Additionally, due to several factors including the Company's decision to merge its poker room and macro-economic factors, the Company has recorded poker room integration costs, impairments of long term assets and departure costs associated with the Company's former CEO.

Total expenses increased to \$99.6 million or 37.6% (2007: \$72.4 million) primarily due to charges recorded in 2008 for impairments of long-term assets (\$16.1 million), poker room integration costs (\$3.1 million), departure costs associated with our former CEO (\$3.4 million) as well as increased operating and general and administrative costs.

We continue to focus on maintaining close control over all discretionary expenditures as we align to the new market environment. We expect our costs to decrease in absolute terms substantially in 2009, as we execute on the reorganization plan announced in November 2008 where we expect to decrease recurring costs between \$12 million to \$15 million.

Operating Expense

CryptoLogic's operating expense comprises development and support expense, which includes all personnel and equity compensation costs for employee stock options and long-term incentive program; licensee support; e-cash systems and support costs; customer service expense; and expense related to regulatory compliance.

Development costs are expensed as incurred unless costs meet the criteria for deferral and amortization under generally accepted accounting principles.

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Total operating expense was \$55.6 million, or 90.4% of revenue (2007: \$49.4 million or 67.1%). The increase in operating expense was primarily due to approximately \$6.1 million loss on foreign exchange recorded during the third and fourth quarters as the U.S. dollar appreciated by approximately 34% against the British pounds and 12% against the euro when the Company had significant net asset positions in these currencies. Other contributing factors to the increased operating expense for the twelve months ended December 31, 2008 when

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compared to the same period of the prior year were increased consulting costs and marketing costs, as the Company focused on adding to its developmental capacity and increasing its marketing activity in new and existing markets. Operating expense in 2008 was favorably impacted by reduced compensation, reduced costs recorded in connection with the Company's long-term incentive plan, and e-cash processing fees. The reduced cost associated with the Company's long-term incentive plan was due to revised expectations on the probability of meeting the respective targets.

We must continue our investment in our core product and services to help licensees grow market share and player loyalty despite the reduction in revenue. Consequently we have gaming capacity for additional licensee fees that we are aggressively looking to fill.

At December 31, 2008, CryptoLogic had 276 employees dedicated to implementing our strategy in a competitive and increasingly sophisticated market, down from 310 a year earlier.

General and Administrative Expense

General and administrative (G&A) expense includes overhead and administrative expense, travel expense and professional fees relating to our business development, infrastructure and public company listings.

In 2008, G&A expense of \$13.7 million represented 22.2% of revenue (2007: \$10.2 million or 13.8%), an increase both as a percentage of revenue and in absolute dollars.

The increase in G&A expense in 2008 as compared with 2007 is a result of increased professional fees associated with our annual audit and compliance with Sarbanes Oxley, additional expense for tax planning, increased fees for advice for merger and acquisition opportunities and consulting fees associated with the protection of our intellectual property. G&A expense was also negatively impacted by increased occupancy costs associated with the establishment of our executive headquarters in the Republic of Ireland.

Reorganization Charges

In November 2008, the Company announced plans to merge its poker network with one of the world's leading gaming technology and services companies. Accordingly the Company has recorded a charge of \$1.4 million primarily comprising of severance costs and professional fees.

In 2007, the Company recorded reorganization charges associated with our establishment of the executive headquarters in the Republic of Ireland and the restructuring of the organization during the year. In 2007, such costs totaled \$5.7 million or 7.7% of revenue and primarily comprise professional fees and expenses related to employee relocation and severance.

Amortization

Amortization expense is based on the estimated useful lives of the assets and includes the amortization of our investments in computer equipment, leasehold improvements, software licenses, and intangible assets to support our business activities.

Amortization expense was \$5.9 million, or 9.6% of revenue (2007: \$6.6 million or 8.9%). The decrease in amortization reflects lower investments in computer equipment, and software licenses offset by a full year of amortization of purchased intangibles for casino.co.uk and Parbet.com.

Poker-Room Integration Costs

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During 2008, the Company announced its plans to integrate our poker operations with a third party poker network. Accordingly the Company identified certain assets including software development projects and certain program costs where their carrying value exceeded the fair value of these assets. Poker room integration costs

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include poker related program costs of \$2.5 million as well as the write off of in process software development projects of \$0.4 million and other costs of \$0.2 million.

Impairments of Long-Term Assets

The Company regularly reviews its assets for impairment. During 2008, the Company determined that the carrying values of certain software development projects and intangible assets exceeded their fair value and took a charge of approximately \$6.7 million and \$7.2 million, respectively. Furthermore, the Company determined that the carrying value of its investment in Mikoishi, a game developer located in Singapore, was greater than its fair value and recorded a \$2.2 million charge.

Departure Costs of Former CEO

In February 2008 the former President and CEO departed the Company. The Company has recorded a charge of approximately \$3.4 million associated which included departure payments of approximately \$2.9 million and related professional fees of \$0.5 million.

Interest Income

Interest income, comprising interest earned on cash and short term investment balances, declined to \$2.1 million in 2008 (2007: \$6.2 million). The decrease was as a result of lower cash balances due primarily to cash used in operating activities and lower interest rates earned on cash deposits.

Provision for Income Taxes

Income taxes were a benefit of \$0.5 million (2007: expense of \$1.0 million), and were net of a future income tax recovery. The decrease in 2008 primarily resulted from lower revenues and losses recognized. Changes in future income taxes result from differences between tax and accounting recognition with respect to certain of CryptoLogic's expenses.

CryptoLogic is subject to tax in many jurisdictions. Subject to significant changes in the tax rates of those jurisdiction or significant changes in our corporate structure, the Company generally expects a blended tax rate of approximately 15%.

Recent and proposed amendments to Section 261 of the Income Tax Act in Canada permit certain corporations resident in Canada to elect to determine their Canadian tax amounts in the corporation's functional currency as opposed to the general requirement that all amounts that are relevant to the computation of tax under the Canadian Income Tax Act be in Canadian dollars. As at December 31, 2008 the amending legislation had not met the requirement of being substantively enacted for purposes of Canadian generally accepted accounting principles. Accordingly, the effects of the October 2008 election have not been incorporated in the accompanying consolidated statements of earnings and comprehensive income for the year ended December 31, 2008. We expect this amendment to become law in the first quarter of 2009, which will allow us to record a benefit to income tax of approximately \$1.4 million. We are subject to Canadian GAAP but taxes are based on the local rules and laws. So not all of our subsidiaries are either resident in Canada and would pay the tax based on their local jurisdiction.

Minority Interest

Pursuant to a business reorganization implemented by way of an Ontario, Canada Superior Court of Justice approved plan of Arrangement and approved by the shareholders on May 24, 2007, the Company 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 the Company. As part of the Arrangement, the Company issued either an equivalent amount of common shares of the Company or, in the case of taxable Canadian residents, Exchangeable Shares of CEC, an indirect subsidiary of the Company.

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The common shares of the Company owned by CEC are considered a non-controlling interest of the Company for accounting purposes only and consequently, a proportional amount of the net earnings before minority interest associated with subsidiaries directly or indirectly owned by CEC is recorded as minority interest.

Minority interest will continue until all Exchangeable Shares have been exchanged into common shares of the Company or until June 1, 2014 when CEC will redeem all outstanding Exchangeable Shares in return for common shares of the Company.

Net (Losses)/Earnings

CryptoLogic recorded a loss of approximately \$32.7 million for the twelve months ended December 31, 2008 as compared with net income of \$5.5 million for the same period in 2007. The decrease in profitability for the year ended December 31, 2008 as compared with the same period of the previous year was due to impairments of intangible assets associated with the Parbet acquisition, adjustments to the carrying value of certain software development projects, costs associated with the integration of our poker room with a third party network, departure costs associated with our former CEO, reorganization charges and declines in casino and poker revenue.

B. LIQUIDITY AND CAPITAL RESOURCES

CryptoLogic remained debt-free in 2009 and remained highly liquid as our balance sheet at December 31, 2009 had net cash of \$23.7 million (2008: \$43.8 million). With the available cash resources we continue to have the financial strength and flexibility to continue to take advantage of opportunities in our markets and consider potential strategic acquisitions. Historically, we have also used cash resources to pay dividends and repurchase shares under the normal course issuer bid.

Comparison of 2009 and 2008

At December 31, 2009, CryptoLogic ended the year with \$23.7 million of net cash (comprising cash and cash equivalents, restricted cash and security deposits) or \$1.71 per diluted share (December 31, 2008: \$43.8 million or \$3.15 per diluted share). Included in the cash balance is \$3.0 million of cash collected from licensees to pay winners of the Company's cumulative jackpot game offerings (2008: \$3.2 million). The decrease in net cash of \$20.1 million is primarily due to cash impact of operating losses (\$10.2 million), dividends paid (\$1.4 million), increase in prepaid assets (\$2.6 million) due primarily to payments to royalty providers including DC Comics, Marvel and Paramount offset by amortization, increase in accounts receivable (\$1.8 million) due primarily to the outsourcing of the poker network and the increase in branded games which each have a one month delay in cash settlement, a decrease in accounts payable and accrued liabilities (\$5.2 million) due to decrease in activity consistent with a cost reduction plan, capital expenditures (\$0.4 million), and investments in Asia (\$0.5 million). These decreases are offset by net tax refunds of \$2.0m. CryptoLogic continues to be debt free.

We pledge \$0.3 million in a security deposit at year end (2008: \$0.3 million). We maintain security on deposits as collateral granted to banks and payment processors that process deposit transactions on our behalf.

We are no longer required to maintain a deposit to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds on deposit (2008: \$5.0 million).

At December 31, 2008, we were required to maintain a deposit of \$2.2 million that would have been paid to the Company's former CEO if there had been a change in control of the Company prior to April 30, 2009. There were no such amounts at December 31, 2009.

Operating Activities

Cash flow used in operating activities was \$17.8 million for the year ended December 31, 2009. (2008: \$18.6 million). Several factors contributed to the decrease in cash flow from operating activities from the prior year including, but not limited to:

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losses from operations primarily due to reduced revenues impacting cash by \$10.2 million; and working capital movements of \$7.6 million associated with increase in accounts receivable, payments to royalty providers, payments of accounts payable and accrued liabilities including amounts for reorganization of our business, offset in part by net tax refunds.

Financing Activities

In 2009, \$1.4 million was used for financing activities (2008: \$6.7 million) due to dividends paid of \$1.4 million.

Cryptologic did not declare a dividend for the fourth quarter 2009 and will not declare any dividends in the short-term.

Investing Activities

Investing activities provided \$6.3 million in 2009 (2008: \$6.2 million). The cash provided by investing activities was due to a reduction in restricted cash of \$7.2 as the Company reduced the amount to be maintained to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds, offset by capital expenditure of \$0.4 million primarily associated with infrastructure improvement and investments in Jingle Inc. and Mikoishi of \$0.5 million.

Working Capital

CryptoLogic's working capital at December 31, 2009 was \$26.5 million or \$1.91 per diluted share (December 31, 2008: \$41.2 million or \$2.97 per diluted share).

In the foreseeable future, we expect our cash needs to be funded through existing cash resources and operating cash flow. Our liquidity gives us the financial flexibility to continue to invest in our business and take advantage of opportunities in our markets and consider potential strategic acquisitions. Historically, our liquidity has also allowed us to pay dividends and repurchase shares under the normal course issuer bid.

User Funds Held on Deposit

User funds held on deposit decreased 26.8% to \$7.9 million at December 31, 2009 (2008: \$10.8 million). The decrease in user funds is due primarily to the reduction in our poker business.

Capitalization

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Since inception, CryptoLogic has had neither debt nor unutilized credit facilities. At December 31, 2009, CryptoLogic had 12,794,020 common shares outstanding and 563,521 stock options outstanding. The 12,794,020 outstanding common shares excludes 1,025,031 (2008: 1,090,974) exchangeable shares in CryptoLogic Exchange Corporation (CEC) which are entitled to be exchanged on a one-for-one basis for common shares of the Company. Including the exchangeable shares of CEC, the outstanding common shares of the Company would be 13,819,051 (2008: 13,819,051). As of March 11, 2010 there were 12,798,120 common shares of CryptoLogic outstanding and 1,020,931 exchangeable shares in CEC outstanding.

As part of the 2007 reorganization, Canadian residents received Exchangeable Shares of CEC, an indirect subsidiary of CryptoLogic. The Exchangeable Shares are, as nearly as practicable, the economic equivalent of common shares of CryptoLogic. For accounting purposes, the acquisition is accounted for using the continuity of interest method, which recognizes CryptoLogic as the successor entity to CryptoLogic Inc. The Exchangeable Shares can be exchanged for an equivalent amount of common shares of the Company at anytime and are accounted for as a minority interest. On June 1, 2014, CryptoLogic through its subsidiaries will redeem not less than all of the then outstanding Exchangeable Shares for an amount per share equal to the redemption price. The

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redemption price will be satisfied through the issuance and delivery of one common share of CryptoLogic for each Exchangeable Share. CryptoLogic has issued a special voting share to a third party trustee, the purpose of which is to provide holders of Exchangeable Shares with the right to vote on matters to be voted on by CryptoLogic shareholders. All outstanding options of CryptoLogic Inc. as of the date of the Arrangement were fully assumed by CryptoLogic under the same terms and conditions as originally granted by CryptoLogic Inc. The Exchangeable Shares provide those shareholders with the same voting and dividend rights as the common shares of CryptoLogic. No additional Exchangeable Shares will be issued and all stock options will give rise to the issue of additional common shares of CryptoLogic.

From December 3, 2008 to December 2, 2009, CryptoLogic has, through its Normal Course Issuer Bid, authorization to repurchase up to 1,267,871 common shares, under which we did not buy back any common shares. Under the 2007 Normal Course Issuer Bid, we repurchased and cancelled 124,905 common shares during 2008 for a total cost of \$1.4 million.

Comparison of 2008 and 2007

CryptoLogic remained debt-free in 2008 and remained highly liquid as our balance sheet had net cash of \$43.8 million (2007:\$77.5 million). With the available cash resources we continue to have the financial strength and flexibility to continue our growth strategy, pay dividends, repurchase our own common shares through issuer bids and consider acquisition opportunities as they arise.

At December 31, 2008, CryptoLogic ended the year with \$43.8 million of net cash (comprising cash and cash equivalents, restricted cash and security deposits) or \$3.15 per diluted share (December 31, 2007: \$77.5 million or \$5.57 per diluted share). The decrease in net cash of \$33.7 million is primarily due to the dividends paid of \$5.4 million, repurchase of common shares under the Normal Course Issuer Bid of \$1.4 million, capital expenditures of \$4.5 million, investments in Asia of \$2.7 million, earn out payment with casino.co.uk of \$1.3 million, tax payments of \$4.8 million and operating losses offset in part by a decrease in restricted cash. CryptoLogic continues to be debt free.

We pledge \$0.3 million in a security deposit at year end (2007: \$1.5 million). We maintain security on deposits as collateral granted to banks and payment processors that process deposit transactions on our behalf.

We are also required to maintain a deposit of \$5.0 million (2007: \$20.0 million) to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds on deposit.

At December 31, 2008, we were required to maintain a deposit of \$2.2 million that would have been paid to the Company's former CEO if there had been a change in control of the Company prior to April 30, 2009.

Operating Activities

Cash flow used in operating activities was \$18.6 million for the year ended December 31, 2008. (2007: \$11.9 million). Several factors contributed to the decrease in cash flow from operating activities from the prior year including, but not limited to:

- losses from operations primarily due to reduced revenues and realized losses on foreign exchange;
- departure costs associated with the termination of the Company's CEO; and

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working capital movements of \$10.4 million associated with payments of tax and other liabilities.

Financing Activities

In 2008, \$6.7 million was used for financing activities (2007: \$2.8 million) primarily for repurchases of common shares under the Normal Course Issuer bid of \$1.4 million and dividends paid of \$5.4 million

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While each future quarterly dividend is subject to Board approval based on our financial results for that particular period and the Board's view from time to time on the optimal uses of cash, we expect to continue paying dividends on a regular basis. However, as noted above, during 2009, we should start to trend toward quarterly revenue run rates similar to those realized prior to the UIGEA enactment, and continue to strive for net margins (net earnings as a percentage of revenue) in excess of 20%.

Investing Activities

Investing activities provided \$6.2 million in 2008 (2007: cash used in investing activities of \$6.8 million). The increase in cash provided by investing activities was due to reductions in restricted cash and security deposits of \$14.7 million as the Company reduced the amount to be maintained to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds, offset by capital expenditure of \$4.5 million primarily associated with infrastructure improvements and the Company's relocation of its HQ to Dublin, Ireland and investments in Jingle Inc., 568 and Mobilebus of \$2.7 million as the Company executes on its expansion plans in Asia.

Working Capital

CryptoLogic's working capital at December 31, 2008 was \$41.2 million or \$2.97 per diluted share (December 31, 2007: \$68.2 million or \$4.90 per diluted share).

In the foreseeable future, we expect our cash needs to be funded through existing cash resources and operating cash flow. Our liquidity gives us the financial flexibility to continue to invest in our business and take advantage of opportunities in our markets, consider potential strategic acquisitions, pay shareholders dividends, and repurchase common shares under our Normal Course Issuer Bid.

User Funds Held on Deposit

User funds held on deposit decreased 51.6% to \$10.8 million at December 31, 2008 (2007: \$22.3 million). The decrease in user funds is due primarily to the reduction in our poker business.

Capitalization

Since inception, CryptoLogic has had neither debt nor unutilized credit facilities. At December 31, 2008, CryptoLogic had 12,728,077 common shares outstanding and 1,095,211 stock options outstanding. The 12,728,077 outstanding common shares excludes 1,090,974 (2007: 1,114,494) exchangeable shares in CryptoLogic Exchange Corporation (CEC) which are entitled to be exchanged on a one-for-one basis for common shares of the Company. Including the exchangeable shares of CEC, the outstanding common shares of the Company would be 13,819,051 (2007: 13,928,231). As of March 25, 2009 there were 12,731,979 common shares of CryptoLogic outstanding and 1,087,972 exchangeable shares in CEC outstanding.

As part of the 2007 reorganization, Canadian residents received Exchangeable Shares of CEC, an indirect subsidiary of CryptoLogic. The Exchangeable Shares are, as nearly as practicable, the economic equivalent of common shares of CryptoLogic. For accounting purposes, the acquisition is accounted for using the continuity of interest method, which recognizes CryptoLogic as the successor entity to CryptoLogic Inc. The Exchangeable Shares can be exchanged for an equivalent amount of common shares of the Company at anytime and are accounted for as a minority interest. On June 1, 2014, CryptoLogic through its subsidiaries will redeem not less than all of the then outstanding Exchangeable Shares for an amount per share equal to the redemption price. The redemption price will be satisfied through the issuance and delivery of one

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common share of CryptoLogic for each Exchangeable Share. CryptoLogic has issued a special voting share to a third party trustee, the purpose of which is to provide holders of Exchangeable Shares with the right to vote on matters to be voted on by CryptoLogic shareholders. All outstanding options of CryptoLogic Inc. as of the date of the Arrangement were fully assumed by CryptoLogic under the same terms and conditions as originally granted by CryptoLogic Inc. The Exchangeable

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Shares provide those shareholders with the same voting and dividend rights as the common shares of CryptoLogic. No additional Exchangeable Shares will be issued and all stock options will give rise to the issue of additional common shares of CryptoLogic.

From December 3, 2008 to December 2, 2009, CryptoLogic has, through its Normal Course Issuer Bid, authorization to repurchase up to 1,267,871 common shares, under which we have yet to buy back any common shares. Our buyback programs allow us to repurchase our common shares on occasions when we believe that our common share price provides an opportunity to reduce our outstanding share capital at an attractive price. Under the 2007 Normal Course Issuer Bid, we repurchased and cancelled 124,905 common shares during 2008 for a total cost of \$1.4 million.

Critical Accounting Estimates

CryptoLogic's accounting policies are specified in the notes to our financial statements, in particular note 1. The accounting estimates discussed below are considered particularly important as they require judgments by management. Management has instituted policies that are intended to ensure these judgments are well controlled and consistently applied from period to period.

Each time progressive jackpot casino games are played by an end user a specified amount is added to the Jackpot. The Jackpot is won by a player on a random basis and is not predictive. Once a jackpot is won, the progressive jackpot game is reset to a predetermined amount. The Company is liable for funding the jackpot wins as well as amounts required to reset the progressive jackpot game from the pool of funds collected from participating licensees. The reset amount is provided for up to the predetermined amount, as wagering occurs.

The Company regularly performs analysis of the accumulation of jackpot funds and amounts required to address jackpot payouts. During the fourth quarter of 2009, as part of the statistical analysis of the amounts required for jackpot resets, the Company revised its estimated liability arising from the cumulative jackpot. The change in accounting estimate resulted in the reduction of the liability for jackpot accrual and a corresponding increase in revenue of \$0.8 million.

The Company may receive from time to time claims and enter into litigation arising out of the ordinary course and conduct of business including intellectual property matters. Management assesses such claims, and if considered likely to result in material exposure and where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. Management does not make provisions for claims that are considered unlikely to result in a significant loss, claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable. Adjustments will be made to the accrual for such amounts as new information is obtained or the claim settled. During the year, the Company reviewed its accounting for certain contingencies and determined \$0.8 (2008: \$1.0) million was no longer required, which increased revenue by a corresponding amount.

The Company regularly reviews its long-term assets, comprising capital assets, intangible assets and long-term investments for impairment. whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability generally requires the Company to estimate the fair value of the long-term asset, which requires the Company to make assumptions and judgments on several items including, but not limited to, the future cash flows that will be generated by these assets and the appropriate discount rate to apply to those cash flows. Measurement of any impairment loss for long-lived assets is based on the amount by which the carrying value exceeds the fair value of the asset.

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Accounting for both current and future tax requires the Company to make assumptions, judgments and estimates about current tax laws, which require certain interpretations of tax laws in several jurisdictions around the world as well as possible outcomes of current and future audits conducted by the respective tax authorities. The Company has established reserves for income taxes to address potential exposures involving tax positions that

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could be challenged by tax authorities. Although the Company believes our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of the current and any future tax audits could significantly impact the amounts provided for income taxes in its consolidated financial statements.

The Company's assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations or capital gains income. Actual operating results and the underlying amount and category of income in future years could render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting its financial position and results of operations.

The Company has a stock option plan where the amount of compensation expensed is determined using an option pricing model. In addition, the Company provides a long-term incentive program where the amount of the compensation expensed is determined based on estimated performance criteria and the Company's stock price. Calculations for these plans with the necessary assumptions inherently mean judgments are required by management.

Recently issued and adopted accounting pronouncements

Recently issued accounting pronouncements

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an IFRS Omnibus Exposure Draft proposing that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011.

In June 2008 the Canadian Securities Administrators (CSA) issued Staff Notice 52-321, Early Adoption of IFRS which indicated that the CSA would be prepared to grant an exemption to allow Canadian financial statement issuers to adopt IFRS early on a case-by-case basis, provided that they could demonstrate that they met certain conditions.

The adoption of IFRS will require the restatement of amounts reported by us for our previous year ended, and of the opening balance sheet as at the date of adoption.

We intend to adopt IFRS for the accounting period commencing January 1, 2011 and we are continuing to assess the financial reporting impacts of the adoption of IFRS. We expect financial reporting impacts to deferred tax, intangible assets and share based payments, however, the impact on future financial position and results of operations is not reasonably determinable or estimable at this time. We do anticipate a significant increase in disclosure resulting from the adoption of IFRS and are continuing to assess the level of disclosure required.

The IFRS conversion project consists of three phases: Scoping and Diagnostics, Analysis and Development and Implementation and Review.

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Phase One: Scoping and Diagnostics, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS, has been completed.

Phase Two: Analysis and Development, involves detailed diagnostics and evaluation of the financial impacts of various options and alternative methodologies provided for under IFRS; identification and design of operational and financial business processes; initial staff and audit committee training; analysis of IFRS 1 optional exemptions

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and mandatory exceptions to the general requirement for full retrospective application upon transition to IFRS; summarization of 2011 IFRS disclosure requirements; and development of required solutions to address identified issues. Phase Two is underway, but has not yet been completed and while certain differences have been identified, we do not believe these will have any significant financial statement impact.

Phase Three: Implementation and Review will involve the execution of changes to information systems and business processes; completion of formal authorization processes to approve recommended accounting policy changes; and further training programs across our finance and other affected areas, as necessary. It will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements and reconciliations; embedding of IFRS in business processes; and audit committee approval of IFRS-compliant financial statements.

Recently adopted accounting pronouncements

Canadian Institute of Chartered Accountants Handbook (Handbook) Section 3064, Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets, is effective from January 1, 2009 and converges accounting for goodwill and intangible assets under Canadian GAAP with International Financial Reporting Standards. The new standard provides more comprehensive guidance on intangible assets, particularly for internally developed intangible assets. The Company has adopted the above standard and included the required disclosures in the notes to the consolidated financial statements.

C. RESEARCH AND DEVELOPMENT

We make significant investments in research and development to remain competitive with technology advancements and product evolution in the global online gaming market. Research and development personnel comprised 34% of our workforce at 2009 year end (2008: 34%, 2007: 23%). Our research and development expenditures, which are accounted for as part of operating expenses, totaled \$39.9 million in 2009 (2008: \$55.6 million; 2007: \$49.4 million).

D. TREND INFORMATION

Refer to the Overview at the beginning of this Item 5. Operating and Financial Review and Prospects above.

E. OFF-BALANCE SHEET ARRANGEMENTS

As of March 11, 2010, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

F. CONTRACTUAL OBLIGATIONS

The following table summarizes our known contractual obligations as of December 31, 2009:

<i>(In thousands of U.S. dollars)</i>	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Facility leases, including lease termination fees	\$ 5,074	3,425	1,318	331	
Minimum royalty payments and purchase commitments	9,521	6,096	3,175	250	
Total	14,595	9,521	4,493	581	

Total cash commitments at the end of fiscal 2009 were \$14.6 million (2008: \$19.5 million). The Company has entered into lease agreements for premises expiring at various periods up to September 2013.

G. SAFE HARBOR

Refer to Cautionary Statement Regarding Forward-Looking Information on page 2 of this annual report.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**A. DIRECTORS AND SENIOR MANAGEMENT**

The following table and the narrative that follows set forth the name, age, residence, position, date of first election of each director and member of senior management for CryptoLogic, including the predecessor company, as at March 11, 2010.

Name and Municipality of Residence	Age	Principal Occupation	Served as a Director⁽⁵⁾/ Officer Since
Thomas Byrne ⁽¹⁾⁽²⁾⁽³⁾ Dublin, Ireland	60	Director	April 13, 2007
Stephen H. Freedhoff, CA, CFP ⁽¹⁾⁽²⁾⁽⁶⁾ Toronto, Ontario	74	Self-employed Chartered Accountant Director	May 1, 2003
David M.J. Gavagan ⁽²⁾⁽⁴⁾ Dublin, Ireland	58	Self-employed consultant Chairman of the Board and Director ⁽⁸⁾	June 17, 2008
Brian Hadfield ⁽⁴⁾	58	Self-employed Chartered Accountant Director	May 30, 2007

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Gerards Cross, England		President and CEO	
Robert H. Stikeman ⁽³⁾⁽⁴⁾	64	Director ⁽⁶⁾	March 7, 1996
Toronto, Ontario			
		Partner, Stikeman Keeley Spiegel Pasternack LLP (a law firm)	
Stephen B. Taylor, CA	52	Director	August 8, 2005
Dublin, Ireland			
James Wallace ⁽¹⁾⁽²⁾⁽⁴⁾	66	CFO Director	June 3, 2009
Cheshire, England			
		Self-employed chartered accountant	

- (1) Member of Audit Committee at December 31, 2009 and up to March 11, 2010..
- (2) Member of Remuneration Committee at December 31, 2009 and up to March 11, 2010.
- (3) Member of Nominating Committee at December 31, 2009 and up to March 11, 2010.
- (4) Member of Compliance and Governance Committee at December 31, 2009 and up to March 11, 2010.
- (5) Each director is elected annually to hold office until the next annual meeting of shareholders.
- (6) Mr. Freedhoff was a Director of the Company from May 1, 2003 to June 30, 2007. He rejoined as a Director of the Company on February 27, 2008.

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Biographies of each of the directors and officers set out in the above table and their respective positions held for the last five years are noted below.

Thomas Byrne is a Chartered Accountant and a Chartered Director. He was a partner in a global accounting firm before joining Ireland's largest brokerage firm where he was head of Corporate Finance. He set up his own corporate advisory company in 2001. Mr. Byrne is Chairman of the Board's Audit Committee. He served as Chairman of the Audit Committee of EcoSecurities Group Plc until it was privatised in late 2009. In addition to serving on the boards of SWIP 11 PLC., the Irish Takeover Panel, and the Institute of Directors in Ireland he is also a non-executive director of a number of Irish private companies.

Stephen H. Freedhoff, CA, CFP has been a self-employed consultant since July 1999. Prior to that, he was a partner of a Canadian national accounting firm for 30 years. Mr. Freedhoff had been a Director of the Company from May 1, 2003 to June 30, 2007, and had also served as Chairman of the Board's Audit Committee until May 31, 2007. He rejoined as a Director of the Company on February 27, 2008, and served as Chairman of the Board's Remuneration Committee until June, 2009. Mr. Freedhoff is also a non executive director at CryptoLogic Exchange Corporation.

David M.J. Gavagan was the co-founder and managing/senior partner of Hibernia Capital Partners, where he served in this capacity from 1996 until the fund closed in 2006. Hibernia Capital Partners was a private equity fund manager. At present, Mr. Gavagan is a self-employed Chartered Accountant and serves as a non-executive director on a number of private companies. Mr. Gavagan was appointed Chairman of the Board at the annual shareholder's meeting on June 3, 2009.

Brian Hadfield was appointed as the Company's President and Chief Executive Officer on February 27, 2008, and has been a Director of the Board since May 30, 2007. He had held progressively more senior positions at Unisys Limited from 1984 to 2005 and for the period 2000 to 2005 was its Managing Director.

Robert H. Stikeman served as Chairman of the Board from May 2003 until June 2009, and continues to serve as a Director having done so since May 30, 2002 and also has served as the Company's Secretary from 1996 until June 2009. He has been a partner for the past 20 years in Stikeman Keeley Spiegel & Pasternack LLP, a Toronto, Canada law firm he was instrumental in establishing. Mr. Stikeman holds non-executive directorships at Burnstone Ventures Inc., Isign Media Solutions, Inc. and CryptoLogic Exchange Corporation.

Stephen B. Taylor, CA was appointed Chief Financial Officer of the Company on August 8, 2005 and brings more than two decades of experience in financial and business management, public markets, and mergers and acquisitions. Mr. Taylor is a Chartered Accountant. Previous posts included senior financial and corporate roles at Derlan Industries, a TSX-listed aerospace company, an early-stage private software company and Vice President of Mergers and Acquisitions with Ernst & Young's corporate finance practice. Mr. Taylor spent the first 11 years of his career with Coopers & Lybrand (now PricewaterhouseCoopers) auditing multinational clients in the manufacturing, mining and financial services sectors.

James Wallace, FCA Mr. Wallace is a professional public company director, who currently sits on the boards of two public companies in the United Kingdom. He is currently Chairman of Scapa Group plc, the senior independent non-executive director and Audit Committee Chairman of NCC Group plc, and also a non-executive director of the Manchester Airport Group. Previously Mr. Wallace served as Chairman of Bodycote International plc until 2008, and senior independent nonexecutive director of Holidaybreak plc until 2008. Mr. Wallace also served as Chairman of Sigma Capital Group plc until 2008 and Chairman of the Audit Committee of

Sanctuary Group plc until 2007. Mr. Wallace is also a chartered accountant by profession.

No director or officer of the Company has any family relationship with any other officer or director of the Company. Members of the Board hold various non executive directorships in private companies.

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B. COMPENSATION

The following table presents all compensation in respect of senior management for the financial year ended December 31, 2009.

NAME AND PRINCIPAL POSITION	YEAR	SALARY US(\$) ⁽¹⁾	SHARE- BASED AWARDS US(\$)	OPTION- BASED AWARDS US(\$)	NON-EQUITY INCENTIVE PLAN COMPENSATION US(\$)	ANNUAL INCENTIVE PLANS	LONG-TERM INCENTIVE PLANS ⁽²⁾	PENSION VALUE US(\$)	ALL OTHER COMPENSATION US(\$)	TOTAL COMPENSA-TION US(\$)
Brian Hadfield President and CEO and Director	2009	657,712	NIL	NIL	NIL	NIL	NIL	NIL	17,520 ⁽³⁾	675,232
Stephen Taylor Chief Financial Officer	2009	254,406	NIL	NIL	NIL	161,783		17,878 ⁽⁴⁾	308,414 ⁽⁵⁾	742,481
Justin Thouin Vice President - Product Management and Business Development	2009	234,734	NIL	NIL	NIL	95,369		NIL	19,269 ⁽⁶⁾	349,372
Tom McInnes Managing Director	2009	84,784	NIL	NIL	NIL	NIL	NIL	7,487	207,440 ⁽⁷⁾	299,711
Barry Townsend	2009	NIL	NIL	NIL	NIL	NIL	NIL	NIL	269,048 ⁽⁸⁾	269,048

⁽¹⁾ All amounts in this Table are expressed in US dollars. Unless otherwise indicated, where actual compensation was paid in a currency other than US dollars, the amounts in this Table are calculated based on the average effective local currency to US dollar exchange rate for fiscal year 2009.

⁽²⁾ These payments were made under the Company's 2006 LTIP plan, which plan matured on December 31, 2008. The payments were made in early 2009. A portion of the value of the 2006 LTIPs was crystallized by decision of the CryptoLogic board on October 13, 2006 corresponding to the passage of the UIGEA, and were payable to employees at the completion of 3 years of employment ending December 31, 2008 (See *Long-Term Incentive Plan* below). Further grants were made under the 2007 LTIP. The 2007 LTIP plan has now matured, but no payouts were made under the plan, as the payout conditions were not achieved.

⁽³⁾ This amount is made up of a car allowance.

⁽⁴⁾ All Ireland-based employees of the Company, including Mr. Taylor, participate in a pension plan administered in accordance with Irish standards, whereby the Company makes a pre-determined contribution on behalf of Mr. Taylor.

⁽⁵⁾ These amounts are made up of 1) amounts earned by Mr. Taylor while working away from Ireland, 2) allowances for ongoing expenses provided to Mr. Taylor associated with his relocation and the relocation of his family to Dublin, Ireland including car allowance, cost of living adjustments, housing allowances and tuition reimbursements for the educational requirements of his family and 3) a retention bonus due on each anniversary date of the date of his employment agreement with the Company up to February 14, 2010. Mr. Taylor's duties require him to spend approximately one-third of his time away from Ireland. With respect to the portion of his compensation associated with his time away from Ireland, Mr. Taylor is paid through a consulting arrangement between a wholly owned subsidiary of the Company and a corporation wholly-owned by Mr. Taylor.

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⁽⁶⁾ This amount is made up of a car allowance and payout of unused vacation days.

⁽⁷⁾ Mr. McInnes was a consultant prior to becoming a full time employee with the Company. These amounts represent payments to Mr. McInnes when he was engaged as a consultant.

⁽⁸⁾ Mr. Townsend is a consultant to the Company. His primary role is to oversee the functions of our Development and Operations Groups. These amounts represents the fees from Townsend Squared Limited for the services of Mr. Townsend.

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Incentive Plan Awards

Outstanding Share-Based Awards and Option-Based Awards

The following table presents information relating to all share-based and option-based awards outstanding as at December 31, 2009 in respect of senior management.

NAME	OPTION-BASED AWARDS			VALUE OF UNEXERCISED IN-THE- MONEY OPTIONS (\$)	SHARE-BASED AWARDS	
	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#)	OPTION EXERCISE PRICE (C\$) ⁽¹⁾	OPTION EXPIRATION DATE		NUMBER OF SHARES OR UNITS OF SHARES THAT HAVE NOT VESTED (#)	MARKET OR PAYOUT VALUE OF SHARE-BASED AWARDS THAT HAVE NOT VESTED (\$)
Brian Hadfield	100,000	\$19.00	05/15/13			