CRYPTOLOGIC LTD
Form 6-K
December 01, 2009
FORM 6-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of **November 2009**

Commission File Number **000-30224**

CRYPTOLOGIC LIMITED
Marine House, 3rd Floor

Clanwilliam Place

Dublin 2, Ireland

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

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

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

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

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

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

Signatures

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

CRYPTOLOGIC LIMITED

Stephen Taylor

Chief Financial Officer

Date: November 30, 2009

EXHIBIT INDEX

Exhibit No.	Description
99.1	Q3 2009 Report
99.2	Management's Discussion & Analysis
99.3	Interim Financial Statements
99.4	Certification of Interim Filings Executed by Chief Executive Officer
99.5	Certification of Interim Filings Executed by Chief Financial Officer

EXHIBIT 99.1

Dear Fellow Shareholders:

On November 13, 2009, we were pleased to announce our results for the third quarter ending September 30, 2009 that showed growth in branded game revenue, but slower-than-expected rollout as well as sluggish wagering activity limit progress in our core casino business.

Financial highlights:

- Revenue of $9.6 million (Q2 2009: $10.1 million) in a typically slow season for Internet gaming
- Branded game revenue increased by 46% to $0.78 million, up from $0.53 million in Q2 and $0.31 million in Q1 2009
- Hosted casino revenue decreased to $7.1 million (Q2 2009: $7.7 million) due primarily to two jackpot wins on Millionaires Club, one of the company's most popular games
- Poker revenue of $0.5 million (Q2 2009: $0.5 million)
- Net loss before minority interest of $3.4 million (Q2 2009: $6.3 million)
- Diluted loss per share of $0.25 (Q2 2009 diluted loss per share: $0.46)
- Net cash as at September 30, 2009: $28.4 million (June 30, 2009: $33.8 million)
- Dividend of $0.01 per share for the quarter (Q2 2009: $0.03 per share)

Operating highlights:

- 33 branded games on the market by new licensees in Q3, up from 13 in Q2 and three in Q1
- Total customer base now at 29 licensees after signing new multi-year deals in Q3 to provide branded slot games to leading operators such as**Totesport** and**Virgin Games**
- Signed a three-year agreement to license CryptoLogic's full Internet casino suite to**Betsafe**
- Expanded relationship with **888.com** to include five more games for launch later in 2009
- Release of new downloadable game lineup including a video slot version of **Street Fighter IV**, one of the most popular video games of 2009
- Continued momentum of signing up new licensees in Q4 through new deals with **Rank Interactive** and**Unibet,** with games now live on each site

Q4 2009 outlook:

- Continuing steady roll-out of branded games by licensees with 50 games on the market as of today
- More than 80 branded games expected to be live by year end, based on current launch plans by licensees
- The continued impact of the economic environment and the delays in rolling out branded games will result in a loss in the fourth quarter
-

In light of recent performance and the current trading environment, the company is reviewing the carrying value of its assets, which is likely to result in a significant impairment charge in Q4

"Despite a disappointing third quarter, CryptoLogic's business strategy is delivering tangible progress, albeit at a slower pace than anticipated," said Brian Hadfield, CryptoLogic's President and CEO. "With a lower cost base, the largest customer roster in CryptoLogic's history and our third consecutive quarter of increased revenue from branded games, we remain focused on executing our plan — and returning to profitability and long term growth."

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Overview

While CryptoLogic continued to make progress in executing its business strategy, overall results in the quarter were affected by a number of factors. Uncertain macroeconomic conditions and sluggish wagering activity contributed to a significant decline in wagering volumes in both casino and poker compared with the previous year. While the third quarter is traditionally the slowest season for Internet gaming, the seasonal uptick in demand normally seen in September was well below historic trends.

The rollout of branded games by new licensees gained further momentum, but as most of the new games scheduled for the quarter were not launched by customers until late in the period, revenue from these will only start to come through in Q4 2009.

The company's most popular games in the quarter included, Cleo-Queen of Egypt, Cubis, Hulk Ultimate Revenge, Millionaires Club III and Spider-Man Revelations.

New games, new customers

Notwithstanding the slower-than-expected rollout by some customers, CryptoLogic's "build-once-license-often" strategy delivered solid growth from branded games for the third consecutive quarter. Revenue from this segment increased to $0.78 million, a 46% rise since the second quarter as the number of games on customer sites rose to 33, up from 13 in Q2 and three in Q1. Further launches by customers since the end of the quarter have increased the total number of games on the market to 50 today.

The company signed several prominent gaming and entertainment companies in the quarter including well known brands such as **Betsafe, Totesport** and**Virgin Games.** Following the Q4 signings and game launches for **Rank Interactive** and **Unibet,** CryptoLogic has expanded its customer base to 29 licensees, the most in the company's history.

E-gaming innovation

CryptoLogic continued to add to its product portfolio with the launch of a new downloadable game lineup that features a video slot version of the world-famous **Street Fighter™ IV**. The new game pack also featured video slot games Savannah Sunrise, Cleo "Crazy Jackpots" Area 21 and updated versions of longtime favourites Caribbean Stud Poker, American Roulette and Video Poker.

Financial performance

Total revenue: CryptoLogic's revenue was $9.6 million for the third quarter, down $0.5 million from Q2 2009 as wagering activity slowed in August, without a typical seasonal bounceback in September. Revenue was also reduced by $0.56 million as a result of the number of jackpot wins in the quarter, which was above historic levels. This was reflected in casino revenue of $7.1 million in Q3, down from $7.7 million in the second quarter. Poker revenue was flat at $0.5 million in the third quarter. Other revenue included a $0.8 million benefit recorded due to a revised estimate for future royalty payments. As noted above, revenue from branded games continues to grow, up 46% to $0.78 million in the third quarter from $0.53 million in Q2.

Earnings and Earnings per Diluted Share: Due to the factors cited above, the company recorded a loss of $3.4 million, or $0.25 per share (based on a weighted average of 13,820,000 outstanding shares), for the quarter.

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Operating expenses were $9.2 million for the quarter, down from $9.9 million in the second quarter and $16.5 million in the third quarter of 2008. This reflects the company's continued efforts to reduce costs across the business. General and administrative expenses were $2.4 million, up from $2.2 million in Q2 due largely to foreign exchange movements, and down from $3.1 million in Q3 2008.

Balance Sheet and Cash Flow: CryptoLogic ended the quarter with $28.4 million in net cash (comprising cash and cash equivalents, restricted cash and security deposits), or $2.06 per diluted share (June 30, 2009: $33.8 million or $2.45 per diluted share). The decrease in net cash was due largely to the operating loss, jackpot wins of $2.6 million paid out during the quarter. The company continues to be debt-free. CryptoLogic's working capital at September 30, 2009 was $2.50 per share. (June 30, 2009: $37.4 million or $2.70 per diluted share).

Dividend

CryptoLogic declared a dividend of $0.01 per share for the quarter, down from $0.03 in the first two quarters of 2009. The dividend will be paid on December 15, 2009 to shareholders of record of CryptoLogic Limited and CryptoLogic Exchange Corporation as at December 1, 2009.

Outlook

The implementation of the company's branded games is in the hands of its licensees, and has been slower than expected. CryptoLogic continues to expect a steady rise in branded game revenue in the fourth quarter. 50 games are on the market today, and based on the latest information from customers, the company expects more than 80 games to be on the market by the end of the year.

Notwithstanding this progress, the continued impact of the economic environment and the delays in rolling out branded games will result in a loss in the fourth quarter. In light of the company's performance and the current trading and economic environment, CryptoLogic is undertaking a review of the carrying value of its assets in conjunction with the company's annual planning and budgeting process in the fourth quarter and this is likely to result in a significant impairment charge.

Respectfully,

Brian Hadfield

President and CEO

November 13, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

CryptoLogic Limited and our subsidiaries are referred to collectively as "CryptoLogic", "the Company", "we", "us", and "our" throughout this Management's Discussion and Analysis ("MD&A"), unless otherwise specified. The following MD&A should be read in conjunction with the unaudited consolidated interim financial statements of CryptoLogic, including the notes thereto, for the three and nine month periods ended September 30, 2009, and the audited consolidated financial statements and the MD&A of CryptoLogic Limited for the year ended December 31, 2008 as set out in CryptoLogic Limited's annual report. This MD&A is dated November 13, 2009. Additional information relating to CryptoLogic, including our Annual Information Form, is available on SEDAR at www.sedar.com or EDGAR at www.sec.gov. All currency amounts are in US dollars, unless otherwise indicated.

BUSINESS OVERVIEW

CryptoLogic is a world-leading and long-standing publicly traded online gaming software developer and supplier servicing the global Internet gaming market. WagerLogic Limited ("WagerLogic"), a wholly-owned subsidiary of CryptoLogic, provides software licensing, e-cash management and customer support services for our Internet gaming software to an internationally-recognized client base ("licensees" or "customers") around the world who operate under government authority where their Internet businesses are licensed.

Pursuant to a business reorganization implemented by way of an Ontario Superior Court of Justice court approved plan of arrangement (the "Arrangement") and approved by the shareholders on May 24, 2007, CryptoLogic Limited acquired control over all of the issued and outstanding common shares of CryptoLogic Inc., an Ontario company, which through the Arrangement became an indirect subsidiary of CryptoLogic Limited. As part of the Arrangement, the Company issued either an equivalent amount of CryptoLogic Limited Common Shares or, in the case of taxable Canadian residents, exchangeable shares ("Exchangeable Shares") of CryptoLogic Exchange Corporation ("CEC"), an indirect subsidiary of the Company. The CEC shares are, as nearly as practicable, the economic equivalent of CryptoLogic Limited Shares. These CEC shares participate equally in voting and dividends with the shareholders of the Company. No additional shares of CEC 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 presented in the MD&A 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 GAAP.

OVERVIEW OF RESULTS

Revenue for Q3 2009 was 9.6 million, a decrease of 31.7% when compared with the same period of the prior year (Q3 2008: $14.0 million). When compared to Q3 2008, revenue in Q3 2009 was negatively impacted by a transition of licensees primarily due to the outsourcing of its hosted poker business to GTECH Corporation International Poker Network ("GTECH"), the departure of Littlewoods and other smaller licensees, weaker results from the Company's major licensees, general macro economic trends, increased contribution requirements for the Company's jackpot games and a strong U.S. dollar. In March 2009, the Company completed the outsourcing of its hosted poker business to GTECH, which gives CryptoLogic's poker licensees and players access to a larger network with a combined average of 15,000 active players – at significantly lower cost to CryptoLogic. As expected, poker revenue declined as many of poker licensees did not migrate to the GTECH and the fees that we earned were reduced by amounts paid to GTECH. However the increased liquidity of the GTECH poker room has had less of a positive impact than expected resulting in larger declines than expected. The U.S. dollar was significantly stronger when compared to the euro and British pound in Q3 2009 as compared with Q3 2008 negatively impacting revenue by approximately $0.7 million.

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Revenue for the nine months ended September 30, 2009 was $29.9 million, a decrease of 40.5% when compared with the same period of the prior year. (YTD September 30, 2008: $50.2 million). The items that have impacted revenue in the nine month period are of the same nature as those impacting revenue for the current quarter. The U.S. dollar was significantly stronger when compared to the euro and British pound in the nine month period ended September 30, 2009 as compared with the same period of the prior year negatively impacting revenue by approximately $4.2 million. In the first nine months of 2008, the Company recorded a benefit to revenue of $1.0 million associated with revised estimates for future royalty payments as well as the change in estimates discussed above.

Net loss in Q3 2009 was $3.2 million or $0.25 per diluted share (Q3 2008: $5.9 million or $0.45 per diluted share). The loss in the current quarter compared to Q2 2009 was due primarily to decreased revenue; increased reorganization costs associated with the Company's efforts to decrease costs and outsource non-core areas and decreased interest income. Partially offsetting these increases were decreased operating expenses as the impact of the Company's cost reduction plans started yielding results and a strong U.S. dollar. The U.S. dollar was significantly stronger when compared to the euro and British pound and Canadian dollar in Q3 2009 as compared with Q3 2008 positively impacting expenses by approximately $1.0 million. The net loss for the nine months ended September 30, 2009 was $10.7 million or $0.81 per diluted share (YTD September 30, 2008: $6.8 million or $0.50 per diluted share). The loss for the nine months ended September 30, 2009 was primarily due to items impacting the current quarter as well as increased general and administrative expenses in the first quarter associated with increased legal fees and $3.9 million impairment of long-term investments. In the first nine months of 2008 the loss for the period was impacted by a $1.8 million charge associated with a change in senior management. The U.S. dollar was significantly stronger when compared to the euro and British pound and Canadian dollar in the nine month period ended September 30, 2009 as compared with same period in 2008 positively impacting expenses by approximately $5.8 million. The decrease in net loss for Q3 2009 when compared to Q3 2008 is due primarily to a $4.2 million loss on foreign exchange recorded in Q3 2008. The current quarter did not have a similar loss. The increase in the net loss for the nine months ended September 30, 2009 when compared to the same period of the prior year is due primarily to decreased revenues offset in part by decreased expenses.

At September 30, 2009, the Company ended the quarter with $28.4 million of net cash, which is comprised of cash and cash equivalents, restricted cash and security deposits, or $2.06 of net cash per diluted share (December 31, 2008: $43.8 million or $3.15 per diluted share). The decrease in net cash during the nine months ended September 30, 2009 of approximately $15.3 million is due to the following items: cash impact of operating losses of approximately $3.7 million, an increase in prepaid expenses of $2.2 million largely due to $2.0 million paid to secure the royalty rights of D.C. Comics including Superman and Batman and renewal of the Marvel royalty rights including Spiderman, the timing of receipts of accounts receivable of $1.5 million and payments of our trade accounts payable of $4.8 million tax payments of $0.9 million, dividends of $1.2 million, purchase of capital assets of $0.5 million and the purchase of long term investments in Asia of $0.5 million. The Company continues to be debt free. CryptoLogic's working capital at September 30, 2009 was $34.6 million or $2.50 per diluted share (December 31, 2008: $41.2 million or $2.97 per diluted share).

	Fiscal 2009			Fiscal 2008				Fiscal 2007	
Fiscal Quarters	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
In thousands of US dollars, except per share data)									
Revenue	**$ 9,591**	$ 10,140140	$ 10,134	11,360	14,049	16,800	19,317	20,350	17,503
Casino	**7,098**	7,721	6,384	7,458	10,138	10,800	13,426	13,959	11,431
Branded game	**780**	534	315	324	—	—	—	—	—
Poker	**501**	516	1,956	2,671	3,219	3,635	4,234	4,615	4,765
Interest income	**87**	122	171	16	443	824	794	1,514	1,322
Minority interest	**(244)**	(122)	(78)	(2,528)	396	96	162	763	208
Net (loss)/earnings and comprehensive income	**(3,204)**	(6,191)	(1,296)	(25,968)	(5,886)	(1,493)	609	4,273	2,392
(Loss)/earnings per share									
Basic	**$ (0.25)**	$ (0.46)	$ (0.10)	$ (2.05)	$(0.45)	$(0.10)	$ 0.06	$ 0.36	$ 0.19

Diluted	**$ (0.25)**	$ (0.46)	$ (0.10)	$ (2.05)	$(0.45)	$(0.10)	$ 0.06	$ 0.36	$ 0.19
Weighted average number of shares (000's)									
Basic	**13,820**	13,820	13,820	13,820	13,866	13,934	13,932	13,927	13,917
Diluted	**13,820**	13,820	13,820	13,820	13,866	13,934	13,937	13,977	13,930

RESULTS OF OPERATIONS

Revenue

Revenue for Q3 2009 was $9.6 million, a decrease of 31.7% when compared with the same period of the prior year (Q3 2008: $14.0 million). Revenue for the nine months ended 2009 was $29.9 million, a decrease of 40% when compared with the same period of the prior year (YTD September 2008: $50.2 million).

Hosted Internet casino

Hosted Internet casino revenue decreased 30.0% to $7.1 million, for the quarter ended September 30, 2009 as compared to the same period in the prior year (Q3 2008: $10.1 million). Hosted Internet casino revenue accounted for 74.0% of total revenue for Q3 2009 (Q3 2008: 72.2%). Revenue in Q3 2009 was negatively impacted by the departure of Littlewoods and other smaller licensees, decreased revenues due to the number of jackpot wins, weaker results from two of the Company's major licensees, general macro economic trends and a strong U.S. dollar. The U.S. dollar was significantly stronger when compared to the euro and British pound in Q3 2009 as compared with Q3 2008 negatively impacting Internet casino revenue by approximately $0.6 million. Internet casino revenue was $21.2 million for the nine months ended September 30, 2009, a decrease of 38.3% when compared with the same period of the prior year (YTD September 30, 2008: $34.4 million). The U.S. dollar was significantly stronger when compared to the euro and British pound in the first nine months of 2009 as compared with the same period in 2008 negatively impacting Internet casino revenue by approximately $3.5 million. The decrease in revenue for the first nine months of 2009 is primarily due to similar factors that have impacted the current quarter as well as a benefit recorded to revenue in 2008 of $1.0 million associated with revised estimates for future royalty payments.

Branded games

Branded games revenue was $0.8 million for the three months ended September 30, 2009 (Q3 2008: nil). Branded games revenue accounted for 8.1% of total revenue for Q3 2009 (Q3 2008: nil). At September 30, 2009, the Company had delivered 33 games, including 20 during the quarter. The games delivered in Q3 were generally delivered late in the quarter therefore, did not have a material positive impact on revenue in Q3. Future quarters will benefit from a full quarter's revenue on these games. Branded games revenue was $1.6 million for the nine months ended September 30, 2009 (Q3 YTD 2008: nil). Branded games revenue accounted for 5.5% of total revenue for Q3 2009 (Q3 2008: nil).

Fees or licensing revenue from both our hosted Internet casino and our branded games businesses are calculated as a percentage of a licensee's level of activity in their online casino sites. Such revenue is affected by the number of active players on the licensee's site and their related gaming activity. In addition, this revenue is influenced by a number of factors such as the entertainment value of the games developed by CryptoLogic, the frequency and success of new game offerings and the effectiveness of the licensees' marketing programs.

Internet poker

In Q3 2009 Internet poker revenue declined 84.4% to $0.5 million from $3.2 million in the same period of the prior year. Internet Poker revenue represented 5.2% of total revenue for the third quarter of 2009 (Q3 2008: 21.6%). Internet poker revenue for the nine months ended September 30, 2009 was $3.0 million, a decrease of 73.2%, as compared to the same period of the prior year (YTD September 30, 2008: $11.1 million). The reduction in Internet poker revenue for the three and nine months ended September 30, 2009 is primarily due to the transition its poker network to GTECH reducing the number of poker licensees, the 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 number of the poker licensees did not migrate to GTECH and the fees that we earned were reduced by amounts paid to GTECH. However the increased liquidity of the GTECH poker room has had less of a positive impact than anticipated resulting in larger declines than expected. The U.S. dollar was significantly stronger when compared to the euro and British pound in both the three and nine months ended September 30, 2009, as compared with the same periods in the prior year negatively impacting poker revenue by approximately $ 0.04 million and $0.6 million, respectively.

Historically, CryptoLogic, through its wholly-owned subsidiary WagerLogic offered a “virtual” poker room for its licensees. In Q1 2009, the Company completed the outsourcing of its hosted poker business to GTECH Corporation’s International Poker Network. The move gives CryptoLogic’s poker licensees and players access to a larger network with a combined average of 15,000 active players – at significantly lower cost to CryptoLogic. Fees from online poker are based on a percentage of the licensee’s “rake” per hand in regular or ring games (the “rake” is typically 5% of the pot, up to a maximum amount per hand), or fixed entry fees for entry into poker tournaments. Players prefer poker rooms with strong “liquidity”, which are rooms that offer a high availability of games at the desired stake levels, in the currency of choice, and on a 24/7 basis.

Other revenue

Other revenue includes fees for software customization, professional services, marketing support and certain commerce based transactions and other non-recurring revenue. Other revenue was $1.2 million and $4.1 million for the three and nine month periods ended September 30, 2009 (Q3 2008: $0.7 million, YTD 2008: $4.7 million). Other revenue accounted for 12.7% and 13.6% of total revenue for the three and nine month periods ended September 30, 2009, respectively. (Q3 2008: 4.9%, YTD 2008: 9.4%). The increase in other revenue for the three month period ended September 30, 2009 is due to a $0.8 million benefit recorded due to a revised provision for future royalty payments. In Q2 2008 there was a $1.2 million benefit recorded which was associated with a review of our e- cash operations, which resulted in a reduction in expected future payments. Other revenue was also impacted by decreased portals revenue, as well as decreased customization and professional services revenue which are non-recurring in nature. In the first nine months of 2009, other revenue benefitted from increased commerce based transaction fees of $2.0 million on non players who use the Company’s ecash system.

Geographical diversification

CryptoLogic continues to execute its strategy ensuring it is well-diversified to mitigate local regulatory risks. No revenue is derived from U.S. based players.

Revenue trends

The global economic downturn is impacting the Company’s business. This is expected to be mitigated by new branded game roll-outs in the last quarter of 2009, and throughout 2010 and beyond. We also experience seasonality in our business. Historically the first and fourth quarters of the year have been the Company’s strongest. Players spend less time online during the warmer months. We expect this trend to continue, particularly for the more developed casino market.

While the global online gaming market continues to promise growth potential, competition is intensifying for players and market position. We believe that continued disciplined execution of our business strategy will contribute to growth in the future. It is expected that there will be modest growth in European poker markets during the next year.

Operating Expense

Operating expense comprises development and support expense, which includes all personnel and equity compensation costs for employee stock options and the long term incentive program; licensee support; e-cash system and support costs; customer service expense; and staffing for regulatory compliance.

Operating expense for the three and nine month periods ended September 30, 2009 was $9.2 million and $27.3 million, or 96.0% of revenue and 91.4% of revenue, respectively. (Q3 2008: $16.5 million or 117.5% of revenue, YTD 2008: 44.1 million or 87.9% of revenue). Operating expense decreased by $7.3 million or 44.2% and $16.8 million or 38.1% when compared to the corresponding periods of the prior year. The decreases in operating expense in for the three and nine month periods ended September 30, 2009 are due in large part to a $4.2 million loss on foreign exchange recorded in Q3 2008. Operating expenses were also beneficially impacted by the Company's cost reduction program, reduced headcount related costs and a continued strong U.S. dollar. Furthermore, the reduction in revenue has had a corresponding decrease in the Company's contribution to marketing program related costs and ecash processing fees paid on deposits and withdrawals. The Company's cost reduction program has reducing IT and headcount related costs associated with the outsourcing of the poker room to GTECH, as well as general restructuring of the business. A strong U.S. dollar is generally favorable on expenses which are primarily denominated in Canadian dollars, euro and British pounds. The U.S. dollar was significantly stronger when compared to the euro, British pound and Canadian dollar in both the three and nine month periods ended September 30, 2009 decreasing operating expense by approximately $0.7 million and $4.1 million, respectively. The decrease in operating costs for the nine months ended September 30, 2009 was due to the items impacting Q3 2008 as well as a $1.8 million charge associated with a change in senior management. Partially offsetting these decreases is an increase in outsourced software development in Eastern Europe.

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 expense and the cost of public company listings. In Q3 2009, G&A expense was $2.4 million and represented 24.8% of revenue (Q3 2008: $3.1 million or 21.8% of revenue). G&A expense for the nine months ended September 30, 2009 was $7.7 million or 25.8% of revenue (YTD September 30, 2008 $9.9 million or 19.8% of revenue).

The decrease in G&A expense in both the three and nine month periods ended September 30, 2009 as compared with the same periods in the prior year is due to general reductions in costs associated with the Company’s restructuring program, decreased professional fees, reduced rent and occupancy costs as the Company has subleased excess space and a strong U.S. Dollar. The U.S. dollar was significantly stronger when compared to the euro and British pound in the three and nine months ended 2009 as compared with the same periods in 2008 decreasing operating expense by approximately $0.2 million and $1.0 million, respectively.

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. In addition to this change in poker, the Company has many other initiatives underway to lower costs in the business. Cash costs of $1.4 million were recorded in Q4 2008 and $0.9 million were recorded in the nine month period ended September 30, 2009. The charges in the three and nine months ended September 30, 2009, consisted of severance for terminated employees and professional fees.

Amortization

Amortization expense is based on the estimated useful life and includes the amortization of our investments in computer equipment, leasehold improvements, software licenses, acquired customer lists and internet brand names.

In Q3 2009, amortization expense was $1.2 million and $3.7 million for the three and nine month periods ended September 30, 2009. (Q3 2008: $1.5 million, YTD 2008: $4.4 million) Amortization accounted for 12.9% and 12.5% of revenue for the three and nine month periods ended September 30, 2009. (Q3 2008: 10.8% of revenue, YTD 2008: 8.8%) This decrease in Q3 2009 primarily reflects less amortization on infrastructure assets as they become fully depreciated and less amortization of purchased intangibles of Parbet.com, which were impaired in the fourth quarter of 2008. Partially offsetting this decrease was amortization on internally developed software projects which were put into use in Q4 2008.

Interest Income

Interest income, which is composed of interest earned on cash and cash equivalents, was $0.1 million and $0.4 million in the three and nine month periods ended September 30, 2008, respectively. (Q3 2008: $0.4 million and YTD 2008: $2.1 million). The decline in interest income was primarily due to reduced cash and cash equivalents and reduced yields on U.S dollar investments due to interest rate reductions. Cash and cash equivalents declined from the same period in the prior year as a result of the reduced cash generated from operations and the acquisition of certain strategic investments completed during fiscal 2008.

Non Operating Income

Non operating income for the nine month period ended September 30, 2008 comprises gains recorded on the sale of shares acquired and sold in an unsuccessful merger transaction during the first quarter of 2008 as well as certain foreign exchange gains recorded on cash deposits earmarked for additional share purchases. These gains are offset, in part, by related acquisition costs.

Income Taxes

Income taxes were nil and a benefit of $2.3 million was recorded in the three and nine months ended September 30, 2009 (Q3 2008: income tax benefit of $0.4 million and YTD 2008 income tax benefit of $0.4 million). Income taxes were effectively nil for the three months ended September 30, 2009 as taxes due in certain jurisdictions were offset by operating losses in other jurisdictions, which are recoverable. The tax benefit for the nine month period 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 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. The Company is subject to Canadian GAAP so taxes are based on the local rules and laws therefore not all of our subsidiaries are either resident in Canada and subsidiaries resident outside of Canada would record tax expense based the regulations in their local jurisdiction. Income tax also benefited from operating losses that are expected to be utilized in the future.

Minority Interest

As discussed in the Business Overview section, the Company completed a court approved plan of arrangement in 2007. As part of the Arrangement, Canadian residents received Exchangeable Shares of CEC, an indirect subsidiary of the Company. The shares owned by the CEC shareholders are considered a non-controlling interest of the Company and consequently a proportional amount of the Company's share capital is recorded separately as a liability on the Consolidated Balance Sheet. A similar proportional share of the profit and loss associated with subsidiaries directly or indirectly owned by the CEC is included in the consolidated statement of earnings as minority interest.

At the time of the re-organization, a total of 12.6 million and 1.3 million shares of CryptoLogic Limited and CEC were outstanding, respectively. Since then, a total of 279,729 shares of CEC have been exchanged, with the remaining 1,053,333 shares of CEC being reflected as minority interest as at September 30, 2009. Minority interest will continue until all CEC shares have been exchanged into CryptoLogic Limited shares or until June 1, 2014 when we will redeem all outstanding CEC shares in return for CryptoLogic Limited shares.

Net loss in Q3 2009 was $3.2 million or $0.25 per diluted share (Q3 2008: $5.9 million or $0.45 per diluted share). The loss in the current quarter was due primarily to decreased revenue; increased reorganization costs associated with the Company's efforts to decrease costs and outsource non-core areas and decreased interest income. Partially offsetting these increases were decreased operating and general and administration expenses as the impact of the Company's cost reduction plans started yielding results, a strong U.S. dollar and an income tax benefit recorded in the period. The U.S. dollar was significantly stronger when compared to the euro and British pound and Canadian dollar in Q3 2009 as compared with Q3 2008 positively impacting expenses by approximately $1.0 million. The net loss for the nine months ended September 30, 2009 was $10.7 million or $0.81 per diluted share (YTD September 30, 2008: $6.8 million or $0.50 per diluted share). The loss for the nine months ended September 30, 2009 was primarily due to items impacting the current quarter as well as increased general and administrative expenses in the first quarter associated with increased legal fees and $3.9 million impairment of long-term investments. The increased loss for the first nine months of the year was partially offset by a $1.8 million charge associated with a change in senior management recorded in Q1 2008. The U.S. dollar was significantly stronger when compared to the euro and British pound and Canadian dollar in the nine month period ended September 30, 2009 as compared with same period in 2008 positively impacting expenses by approximately $5.8 million. The decrease in net loss for Q3 2009 when compared to Q3 2008 is due primarily to a $4.2 million loss on foreign exchange recorded in Q3 2008. The current quarter did not have a similar loss.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2009, the Company ended the quarter with $28.4 million of net cash, which is comprised of cash and cash equivalents, restricted cash and security deposits, or $2.06 of net cash per diluted share (December 31, 2008: $43.8 million or $3.15 per diluted share). The decrease in net cash during the nine months ended September 30, 2009 of approximately $15.3 million is due to the following items: cash impact of operating losses of approximately $3.7 million, an increase in prepaid expenses of $2.2 million largely due to $2.0 million paid to secure the royalty rights of D.C. Comics including Superman and Batman and renewal of the Marvel royalty rights including Spiderman, the timing of receipts of accounts receivable of $1.5 million and payments of our trade accounts payable of $4.8 million tax payments of $0.9 million, dividends of $1.2 million, purchase of capital assets of $0.5 million and the purchase of long term investments in Asia of $0.5 million. The Company continues to be debt free.

CryptoLogic's working capital at September 30, 2009 was $34.6 million or $2.50 per diluted share (December 31, 2008: $41.2 million or $2.97 per diluted share). The decrease in working capital during the nine months ended September 30, 2009 is primarily due to operating losses, dividends, purchases of capital assets and purchase of long term investments in Asia.

Cash flow used in operating activities was $4.8 million and $13.1 million for the three and nine month periods ended September 30, 2009, respectively (Q3 2008: $10.0 million, YTD 2008: $14.6 million). The use of cash in operating activities for the three months ended September 30, 2009 is due to operating losses, $2.6 million paid in jackpot wins during the quarter, and the timing of accounts receivable. The use of cash in operating activities for the nine month period ended September 30, 2009 is due to the same issues impacting the current quarter as well as $4.1 million paid to secure various royalty rights such as D.C. Comics including Superman and Batman and renewal of the Marvel royalty rights including Spiderman, payments of accounts payable and income taxes.

Cash flow used in financing activities was $0.4 million and $1.2 million for the three and nine month period ended September 30, 2009, respectively (three and nine month periods ended September 30, 2008: $2.3 million and $6.2 million respectively). The use of cash in financing activities is for the payment of dividends. The decrease when compared to the same periods in the prior year is primarily due to the repurchase of common shares under the Normal Course Issuer Bid completed in 2008.

Cash flow provided by investing activities was $4.8 million and $6.2 million for the three months and nine months ended September 30, 2009. (Q3 2008: Cash flow used in investing activities of $6.4 million and YTD Q3 2009: cash flows provided by investing activities of $5.0 million). The cash flow provided by investing activities in the three months ended September 30, 2009 was due to an elimination of the $5.0 million deposit previously required to be maintained to support a letter of credit to the Lottery Gaming Authority of Malta to support user funds. Partially offsetting this was the purchase of capital equipment of $0.2 million. The cash provided by investing activities for the nine month period ended September 30, 2009 was due to the same issues impacting the current period and a reduction of restricted cash of $2.2 million, associated with amounts held in escrow at December 31, 2008, that would have been paid to the Company's former CEO had there been a change in control of the company. Partially offsetting this were purchases of capital equipment and investments in long term investments.

At September 30, 2009, the Company had 12,766,012 common shares outstanding and 579,545 share options outstanding. As discussed in the Business Overview section, the Company completed a court approved plan of arrangement in 2007. As part of the Arrangement, Canadian residents received Exchangeable Shares of CEC, an indirect subsidiary of the Company. CEC had 1,053,333 shares outstanding at September 30, 2009. The CEC shares are, as nearly as practicable, the economic equivalent of CryptoLogic Limited shares. For accounting purposes, the acquisition is accounted for using the continuity of interest method, which recognizes the Company as the successor entity to CryptoLogic Inc. The CEC shares can be exchanged for an equivalent amount of CryptoLogic Limited Shares at anytime and are accounted for as a minority interest. On June 1, 2014, the Company 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 CryptoLogic Limited common share for each Exchangeable Share. CryptoLogic Limited 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 the company matters. All outstanding options of CryptoLogic Inc. as of the date of Arrangement were fully assumed by CryptoLogic Limited under the same terms and conditions as originally granted by CryptoLogic Inc. The shares of CEC provide those shareholders with the same voting and dividend right as the shares of CryptoLogic Limited. No additional shares of CEC will be issued.

INTERNAL CONTROL OVER FINANCIAL REPORTING

For the three and nine month periods ended September 30, 2009, no change occurred in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

These items are substantially unchanged as discussed in the Company's MD&A for the year ended December 31, 2008 as filed on SEDAR at www.sedar.com or EDGAR at www.sec.gov.

Effective January 1, 2009, the Company adopted the following recommendation to the Canadian Institute of Chartered Accountants' Handbook:

Handbook Section 3064, Goodwill and Intangible Assets

Section 3064, Goodwill and Intangible Assets, effective from January 1, 2009, 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 adoption of Section 3064 did not have a material impact.

Recently Issued Accounting Standards:

Handbook Section 3855, Recognition and Measurement

In January 2009, the Accounting Standards Board ("AcSB") issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" that provided guidance on the recognition and measurement of certain financial assets and financial liabilities carried at fair value. EIC-173 concluded that the fair value of financial assets and financial liabilities, including derivative instruments, must take into account the Company's credit risk as well as the counterparty. EIC-173 must be applied retroactively without restatement of prior periods. The adoption of EIC-173 did not have a material impact on the Company's financials statements in either the current or prior periods.

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.

On September 27, 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 the Company for its previous year ended, and of the opening balance sheet as at the date of adoption.

The Company is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Company does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required.

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

Phase One: Scoping and Diagnostics, which involved project planning and staffing and identification of differences between current Canadian GAAP and IFRS, is 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 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 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 the Company's 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.

RISKS AND UNCERTAINTIES

The primary risks and uncertainties that affect and may affect us and our business, financial condition and results of operation are substantially unchanged from the Company's MD&A for the year ended December 31, 2008 as contained in our 2008 Audited Financial Statements filed on SEDAR and www.sedar.com or available on EDGAR at www.sec.gov.

OUTLOOK

The implementation of the company's branded games is in the hands of its licensees, and has been slower than expected. CryptoLogic continues to expect a steady rise in branded game revenue in the fourth quarter. 50 games are on the market today, and based on the latest information from customers, the company expects more than 80 games to be on the market by the end of the year.

Notwithstanding this progress, the continued impact of the economic environment and the delays in rolling out branded games will result in a loss in the fourth quarter. In light of the company's performance and the current trading and economic environment, CryptoLogic is undertaking a review of the carrying value of its assets in conjunction with the company's annual planning and budgeting process in the fourth quarter and this is likely to result in a significant impairment charge.

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CRYPTOLOGIC LIMITED

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

	As at September 30, 2009 *(unaudited)*	As at December 31, 2008 *(audited)*
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 28,194**	$ 36,348
Restricted cash (note 4)	**-**	7,175
Security deposits (note 4)	**250**	250
Accounts receivable and other	**7,533**	6,002
Prepaid expenses	**8,892**	6,564
Income taxes receivable	**1,541**	653
	46,410	56,992
User funds held on deposit	**5,217**	10,833
Future income taxes	**3,629**	1,930
Capital assets	**15,972**	18,703
Long-term investments (note 5)	**2,337**	5,821
Intangible assets	**4,502**	4,982
Goodwill (note 6)	**6,545**	6,545
	$ 84,612	$ 105,806
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 11,439**	$ 15,356
Income taxes payable	**417**	413
	11,856	15,769
User funds held on deposit	**5,217**	10,833
Future income taxes	**298**	382