

CRYPTOLOGIC INC
Form 6-K
August 13, 2007

FORM 6-K

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

Report of Foreign Issuer

**Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934**

For the month of **August 2007**

Commission File Number **000-30224**

CRYPTOLOGIC INC.

(Translation of registrant's name into English)

**55 St. Clair Avenue West, 3rd Floor
Toronto, Ontario, Canada
M4V 2Y7**

(Address of principal executive offices)

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 Form 40-F

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.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

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If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b) 82

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 INC.

Date: August 13, 2007

Stephen Taylor
Chief Financial Officer

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FOR IMMEDIATE RELEASE

Symbol: TSX: CRY & CXY; NASDAQ: CRYP; LSE: CRP
ALL FINANCIAL FIGURES ARE IN US\$

CRYPTOLOGIC SHOWS GROWTH IN Q2

Recent events include revenue growth, new HQ in Dublin, new customer sites & new investment in Asia

August 10, 2007 (Dublin, Ireland) CryptoLogic Limited, a leading software developer to the global Internet gaming industry, today reported financial results for the three months ended June 30, 2007. The company recorded revenue of \$16.2 million and an after-tax loss of \$2.6 million (or \$0.19 per fully diluted share) due principally to \$4.0 million in reorganization costs related to establishing a new corporate headquarters in

SIGNATURES

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Ireland. Without this item and some non-recurring tax impacts, CryptoLogic had an operating profit⁽¹⁾ of \$2.5 million, or \$0.18 per fully diluted share.

CryptoLogic took major steps this quarter towards a return to growth and profitability with an increase in operating revenue, and a decrease in operating costs, said Javaid Aziz, CryptoLogic's President and CEO. Since December, CryptoLogic has launched 11 new customer sites, and we have four more in the pipeline including two for Holland Casino, and one for World Poker Tour. With the confidence of huge global brands, good growth from our European base and encouraging progress in Asia, CryptoLogic's outlook improves every day.

CryptoLogic grew its quarter-over-quarter operating revenue⁽¹⁾ by \$1.2 million, or 7.7%, after excluding the change in estimate benefit from a \$4.5 million pre-tax reduction in the jackpot provision in the first quarter. The company reduced its operating, general and administration costs by \$2.5 million, or 15.5%, from Q1 levels. CryptoLogic ended the quarter with \$91.7 million in net cash (comprising cash and cash equivalents, short-term investments and security deposits). This reduction from \$103.8 million in Q1 is the result of two large payouts totaling \$12.1 million from the company's popular and profitable cumulative jackpot games.

The company has accelerated and completed its reorganization, moving up certain costs to realize the benefits earlier. As a result, reorganization costs for the quarter were \$2.5 million higher than planned previously. The overall cost of CryptoLogic's reorganization will be \$0.9 million higher than the company's forecast of \$8.5 million due to a non-cash option expense related to the hiring of the new CEO.

Financial Highlights

(in millions of US dollars, except per share data)

	Three months ended			Six months ended		
	2007	June 30 2006	% Change	2007	June 30 2006	% Change
Revenue	\$16.2	\$30.4	(46.5%)	\$35.8	\$57.3	(37.6%)
Charge related to Irish HQ	(\$4.0)	(\$0.8)	427.6%	(\$5.7)	(\$1.0)	467.1%
(Loss)/Earnings	(\$2.6)	\$8.2	(132.0%)	(\$1.1)	\$15.9	(107.2%)
(Loss)/Earnings per diluted share	(\$0.19)	\$0.59	(132.2%)	(\$0.08)	\$1.15	(107.0%)
Casino revenue	\$10.2	\$17.9	(42.9%)	\$24.1	\$32.9	(26.8%)
Poker revenue	\$5.0	\$9.3	(46.3%)	\$10.1	\$18.9	(46.4%)

CryptoLogic's results are encouraging at a time of significant change for the industry following the U.S. prohibition of Internet gaming in October 2006. Approximately 70% of the company's business came from Europe at that time. Since then, CryptoLogic is seeing early benefits from its aggressive plan to add new licensee revenue in Europe and Asia, and to achieve additional operating leverage.

Since its last quarterly earnings report, CryptoLogic has capitalized on the changed industry landscape with a number of significant actions. These include adding **new customers**, establishing a **joint venture in Asia**, launching **new games**, and establishing its headquarters in **Ireland** to be closer to its key customers and markets.

Highlights:

New customers

Launched **PlayboyGaming.com**'s casino site.
Launched **World Poker Tour**'s poker site.
Completed **Holland Casino**'s poker and casino sites.

New partnership in Asia

CryptoLogic signed a final agreement with Brilliance Technology Co. and 568 Network Inc. to penetrate the high-growth Chinese market with CryptoLogic's existing games and new games for the Chinese diaspora. The companies plan to offer subscription-based games over the Internet and mobile phones.
On August 2, 2007, CryptoLogic completed an agreement to acquire a minority ownership interest in 568 Network Inc. for \$1.2 million, with the option to take a majority stake in the future.

Game innovation

Launched 9 major casino games on licensee sites.
Launched 25 instant play casino games on licensee sites.

Corporate initiatives

Established its new executive headquarters in Ireland effective June 1, 2007, while maintaining its offices and subsidiaries in Canada, Cyprus, United Kingdom and Singapore.
On August 9, 2007, declared a quarterly cash dividend US\$0.12 per share.

Financial Performance

CryptoLogic increased its recurring operating revenue by \$1.2 million or 7.7% compared with the first quarter of 2007, factoring out the first quarter's one-time revenue increase of \$4.0 million (\$4.5 million before tax) when the company lowered its provision for future casino jackpot payouts. The company reduced its operating, general and administration costs by \$2.5 million or 15.5% from Q1 levels. CryptoLogic ended the quarter with \$91.7 million in net cash.

CryptoLogic has accelerated and completed its reorganization, moving up certain costs to realize the benefits earlier. As a result, reorganization costs for the quarter were \$2.5 million higher than planned previously. The overall cost of CryptoLogic's reorganization will be \$0.9 million higher than the company's forecast of \$8.5 million due to a non-cash option expense related to the hiring of the new CEO.

Total Revenue: Total revenue for the quarter was \$16.2 million. This is 46.5% lower than Q1 2006, due largely to the impact of the U.S. prohibition of Internet gaming. CryptoLogic grew its quarter-over-quarter operating revenue⁽¹⁾ by \$1.2 million, or 7.7%, excluding the change in estimate benefit from a reduced jackpot provision in the first quarter, due to the strengthening of casino revenue.

Earnings and Earnings per Diluted Share: The company showed an after-tax loss for the quarter of \$2.6 million (\$0.19 per fully diluted share), due largely to a pre-tax charge of \$4.0 million (\$3.9 million after tax) related to the establishment of the company's new headquarters in Ireland. More than 90% of the costs of this charge are non-deductible for tax purposes. In addition, certain tax charges related to the company's capital structure that will not recur, increased the quarter's tax provision by \$1.2 million. Without these items, CryptoLogic's operating profit showed a profit of \$2.5 million or \$0.18 per fully diluted share.

Balance Sheet and Cash Flow: CryptoLogic's financial strength continued to be reflected in its balance sheet. At June 30, 2007, net cash was \$91.7 million (comprising cash and cash equivalents, short term investments and security deposits), or \$6.54 per diluted share (March 31, 2007: \$103.8 million, or \$7.43 per diluted share). The decrease in net cash of \$12.1 million mainly reflects amounts paid to winners of cumulative jackpot games during the quarter. The company continues to be debt-free.

CryptoLogic's working capital at June 30, 2007 was \$80.2 million, or \$5.72 per diluted share (March 31, 2007: \$83.9 million, or \$6.01 per diluted share). Cash flow used in operating activities was \$6.5 million in Q2 2007 (Q2 2006: \$18.3 million provided by operating activities). Several factors contributed to the decrease in cash flow from operating activities from Q2 2006: (a) lower earnings from operations after non-cash items (\$9.1 million); (b) lower accounts receivable of \$3.0 million; (c) lower prepaid expenses of \$2.2 million; and (d) lower accounts payable and accrued liabilities (\$20.5 million) due to two significant jackpot payouts and lower jackpot provision.

Outlook

CryptoLogic anticipates achieving further revenue and earnings growth in 2007 and beyond as it leverages its strong European customer base and long-term relationships with leading gaming and entertainment brands. Since December 2006, CryptoLogic has launched 11 new customer sites and expects to launch four more in the months to come (casinos for World Poker Tour and Parbet, and Holland Casino's poker and casino sites). The company expects top- and bottom-line benefits from these sites as they gain traction.

For the third quarter, a slower season for the Internet gaming industry since players spend less time at home during the summer, CryptoLogic expects revenue between \$16.0 and \$17.0 million, with an operating profit between \$1.5 and \$2.5 million. Since companies based in Europe do not typically provide guidance, CryptoLogic is heeding shareholder requests to review its practices to determine whether the company will continue to do so in the future.

Beyond 2007, industry analysts continue to expect strong growth from the European market, which has been CryptoLogic's core focus for the last five years. In addition, rapid online growth in Asia is expected in the years to come. Accordingly, the company has established the following long-term financial objectives for its business in Europe and Asia:

⁽¹⁾ Management believes that operating profit and operating revenue are useful supplemental measures of performance. However, operating profit and operating revenue are not a recognized earnings measure under generally accepted accounting principles (GAAP) and do not have a standardized meaning. Therefore, operating profit and operating revenue may not be comparable to similar measures presented by other companies.

2007 Second Quarter Analyst Call

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A conference call is scheduled today for 8:30 a.m. Eastern time (1:30 p.m. GMT). Interested parties should call either 416-695-9719, 1-888-789-0089 (North America) or the international toll free number at (country code) 800-4222-8835. A replay will be available through August 17, 2007 by calling 416-695-5275 or 1-888-509-0081, passcode 647009#.

About CryptoLogic^c (www.cryptologic.com)

Focused on integrity and innovation, CryptoLogic Limited is a world-leading, blue-chip public developer and supplier of Internet gaming software. Its leadership in regulatory compliance makes it one of the very few companies with gaming software that has been certified to strict standards similar to land-based gaming. WagerLogic Limited, a wholly-owned subsidiary of CryptoLogic, is responsible for the licensing of its gaming software and services to blue-chip customers who offer their games around the world to non-U.S. based players. For information on WagerLogic^c, visit www.wagerlogic.com. CryptoLogic's common shares trade on the Toronto Stock Exchange (CRY, CXY), the NASDAQ Global Select Market (CRYP) and the Main Market of the London Stock Exchange (CRP).

For more information, please contact:

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CRYPTOLOGIC FORWARD LOOKING STATEMENT DISCLAIMER:

Statements in this press release which are not historical are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, risks associated with the company's financial condition and prospects, legal risks associated with Internet gaming and risks of governmental legislation and regulation, risks associated with market acceptance and technological changes, risks associated with dependence on licensees and key licensees, risks relating to international operations, risks associated with competition and other risks detailed in the company's filings with securities regulatory authorities. These risks may cause results to differ materially from those projected in the forward-looking statements.

CRYPTOLOGIC LIMITED**CONSOLIDATED BALANCE SHEETS***(In thousands of US dollars)*

	As at June 30, 2007 (unaudited)	As at December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,187	\$ 76,940
Security deposits	1,500	1,500
Short term investments	55,000	50,000
Accounts receivable and other	11,357	8,251
Prepaid expenses	8,405	7,027
	111,449	143,718
User funds on deposit	24,175	20,872
Capital assets	23,170	18,106
Intangible assets	11,324	48
Goodwill	1,776	1,776
	\$ 171,894	\$ 184,520
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 28,371	\$ 47,766
Income taxes payable	2,901	2,165
	31,272	49,931
User funds held on deposit	24,175	20,872
Future income taxes	3,243	2,133
	58,690	72,936
Shareholders equity:		
Capital stock	34,090	29,096
Stock options	4,727	3,631
Retained earnings	74,387	78,857
	113,204	111,584
	\$ 171,894	\$ 184,520

The accompanying notes are an integral part of the consolidated interim financial statements.

CRYPTOLOGIC LIMITED**CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME**

(In thousands of US dollars, except per share information)
(unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 16,244	\$ 30,351	\$ 35,806	\$ 57,348
Expenses				
Operating	11,405	17,195	24,963	33,550
General and administrative	2,070	2,845	4,451	4,484
Reorganization	4,036	765	5,665	999
Finance	98	120	193	229
Amortization	1,652	1,168	3,135	2,363
	19,261	22,093	38,407	41,625
Earnings (loss) before under-noted	(3,017)	8,258	(2,601)	15,723
Interest income	1,649	1,758	3,381	3,201
Earnings (loss) before income taxes	(1,368)	10,016	780	18,924
Income taxes:				
Current	209	687	807	2,293
Future	1,044	1,135	1,110	775
	1,253	1,822	1,917	3,068
Net earnings (loss) and comprehensive income	\$ (2,621)	\$ 8,194	\$ (1,137)	\$ 15,856
Earnings (loss) per common share				
Basic	\$ (0.19)	\$ 0.60	\$ (0.08)	\$ 1.17
Diluted	\$ (0.19)	\$ 0.59	\$ (0.08)	\$ 1.15
Weighted average number of shares (000s)				
Basic	13,901	13,586	13,859	13,501
Diluted	14,026	13,851	13,981	13,756

The accompanying notes are an integral part of the consolidated interim financial statements.

CRYPTOLOGIC LIMITED

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(In thousands of US dollars)

(unaudited)

	For the six months ended June 30,	
	2007	2006
Retained earnings, beginning of period	\$ 78,857	\$ 59,891
Earnings (loss) and comprehensive income (loss)	(1,137)	15,856
Dividends paid	(3,333)	(2,577)
Retained earnings, end of period	\$ 74,387	\$ 73,170

The accompanying notes are an integral part of the consolidated interim financial statements.

CRYPTOLOGIC LIMITED**CONSOLIDATED STATEMENTS OF CASH FLOWS***(In thousands of US dollars)**(unaudited)*

	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ (2,621)	\$ 8,194	\$ (1,137)	\$ 15,856
Adjustments to reconcile earnings to cash provided by (used in) operating activities:				
Amortization	1,652	1,168	3,135	2,363
Future income taxes	1,044	1,135	1,110	775
Stock options	1,823	510	2,460	1,037
	1,898	11,007	5,568	20,031
Changes in operating assets and liabilities:				
Accounts receivable and other	3,803	813	(3,106)	1,098
Prepaid expenses	2,209	8	(1,378)	(3,170)
Accounts payable and accrued Liabilities	(14,569)	5,921	(19,395)	9,712
Income taxes payable	147	504	736	2,048
	(6,512)	18,253	(17,575)	29,719
Financing activities:				
Issue of capital stock	323	3,630	2,603	
Dividends paid	(1,668) ⁴⁵⁸	(1,631)	(3,333)	(2,577)
	(1,345)	(1,173)		