

CRYPTOLOGIC LTD
Form 6-K
June 04, 2008
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 **June 2008**

Commission File Number **000-30224**

CRYPTOLOGIC LIMITED
Alexandra House

The Sweepstakes

Ballsbridge

Dublin 4

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.

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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

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 LIMITED

/s/ Stephen Taylor

Stephen Taylor

Chief Financial Officer

Date: June 4, 2008

Dear Fellow Shareholders:

We are pleased to report that the company has achieved continued customer revenue growth and profitability for the first quarter ending March 31, 2008. On May 12, 2008, CryptoLogic reported its results for the three months ended March 31, 2008.

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CryptoLogic posted first-quarter revenue of \$19.3 million and net earnings of \$609,000, or \$0.06 per fully diluted share. These numbers reflect several unique items amid a trend of continued growth in the company's core business. Excluding the impact of these items, the company grew its revenue by 21% compared to the same period a year ago due to strong casino growth from new offerings featuring Marvel Super Heroes **Spider-Man** and the **Fantastic Four** and an increased number of licensees.

"CryptoLogic is benefiting from a focused strategy of innovation, expansion, diversification and execution," said Brian Hadfield, CryptoLogic's President and CEO. "In the first quarter, CryptoLogic laid the foundations for future growth with investments in new games, new leadership and new partnerships with leading gaming and entertainment brands. That's why we are confident that CryptoLogic is on track for significant growth in 2008 and 2009."

CryptoLogic continues to have a strong balance sheet, ending the quarter with \$81.0 million in net cash (as defined below). This provides the company with the resources and flexibility to enhance earnings through investments in gaming innovations and partnerships in key growth markets such as Asia.

Financial highlights:

Revenue

- CryptoLogic's customer revenue (i.e., excluding unique items) was up 21% to \$18.3 million (Q1 2007: \$15.1 million), led by 33% growth in the Internet casino business.
- Total revenue was largely unchanged from a year ago: \$19.3 million in Q1 2008 (Q1 2007: \$19.6 million).

Expenses

- Operating expenses were \$14.4 million (Q1 2007: \$13.6 million), up \$0.8 million from a year ago; after normalizing for unique items, operating expenses were \$12.6 million, a 7.9% decrease from Q1 2007.

Net earnings

- Net earnings were \$0.6 million, or \$0.06 per fully diluted share (Q1 2007: \$1.5 million). The reduction is due largely to the one-time expenses noted above, and to a \$4.5 million one-time benefit recorded in Q1 2007.

Balance sheet

- Net cash was \$81.0 million on March 31, 2008, up \$3.5 million since December 31, 2007.

Operational highlights:

New leadership

- In February, CryptoLogic hired **Brian Hadfield** as its new President and CEO. Mr. Hadfield, who joined CryptoLogic as a director last year, is a senior technology executive who has managed major international businesses, including Unisys Limited's operations in the U.K., Middle East, Africa and India.

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ALEXANDRA HOUSE, THE SWEEPSTAKES, BALLSBRIDGE, DUBLIN 4, IRELAND

Leadership through innovation

- CryptoLogic completed development of seven exclusive new casino games, highlighted by the Internet's first slot version of the world-famous **Street Fighter II** arcade game.
- The company continued to see revenue growth from core customers due in part to the popularity of its new slot games featuring Marvel Super Heroes **Spider-Man** and the **Fantastic Four**.
- In February, CryptoLogic earned *Gambling Online Magazine's* **Top Casino Software Award** for the third consecutive year. Because the award is based on the votes of players from all over the world, it is widely considered one of the industry's highest honours.

Customer extension and expansion

- CryptoLogic extended and expanded its relationship with World Poker Tour (WPT), one of the world's top gaming brands. Under the arrangement, WPT will expand its Internet casino offering, add Spanish and German language Internet poker rooms and extend its exclusive use of CryptoLogic software until at least mid-2011.
- The company achieved significant growth from one of its key 2007 investments: the purchase of the popular gaming portal, **casino.co.uk**.
- CryptoLogic announced new licensee arrangements with **888.com**, **0Poker.com** and **Maharajah Club** in May 2008.

New investments in Asia

- CryptoLogic continued its advance into the Asian market by making a strategic investment in **Mahjong Time**, an innovative provider of online Mahjong software and turnkey solutions. Mahjong has a global following of more than 600 million players, creating an attractive opportunity for online gaming growth.
- During the quarter, CryptoLogic acquired a substantial minority interest in South Korea's **Mobilebus Inc.**, one of Asia's fastest-growing mobile and PC game developers and publishers.

Financial Performance

Total revenue: CryptoLogic posted revenue of \$19.3 million for the first quarter, a decrease of 5.1% as compared with the fourth quarter of 2007. After normalizing for unique items, revenue increased modestly quarter over quarter and by 21% when compared with the same period of the prior year.

Earnings and Earnings per Diluted Share: The company achieved net earnings before minority interest of \$0.8 million (\$0.06 per fully diluted share), lower than both the same period a year ago and in the fourth quarter of 2007. The decrease in net earnings before minority interest when compared to the fourth quarter of 2007 is primarily due to \$1.8 million in one-time costs related to senior management change and the timing of the R&D tax credit recorded in Q4 2007 as we expect to recognize a similar credit later this year. The decrease when compared to the same period of the prior year is primarily due to the \$4.5 million one time benefit recorded in the first quarter of 2007 due to a change in the estimate of the future amount to be paid out in casino jackpots.

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During the first quarter of 2008, the company recorded a charge for minority interest of \$162,000. Minority interest represents the earnings that accrue to the shareholders of CryptoLogic Exchange Corporation (TSX: CXY). CXY was established during the reorganization announced in the second quarter of 2007 to benefit taxable Canadian residents. The CXY shares are, as nearly as practicable, the economic equivalent of CryptoLogic Limited shares. Earnings per share, as prescribed by GAAP, are calculated such that it is equal for both groups of shareholders.

Balance Sheet and Cash Flow: CryptoLogic continues to have a strong balance sheet, which have enabled investments in new games and new partnerships to continue in 2008. CryptoLogic ended the quarter with \$81.0 million in net cash (comprising cash and cash equivalents, restricted cash, and security deposits), or \$5.81 per diluted share. This is an increase of \$3.5 million from the fourth quarter of 2007. The company continues to be debt-free.

CryptoLogic's working capital at March 31, 2008 was \$68.3 million or \$4.90 per diluted share (December 31, 2007: \$68.2 million or \$4.90 per diluted share).

Outlook

After reorganizing its business and returning to profitability in 2007 following the U.S. prohibition on most forms of Internet gaming, CryptoLogic management believes the company is on track for significant expansion in 2008 and 2009. The company's strength in software development and its stable and growing customer base position CryptoLogic

for continued growth in Europe. In Asia, the company expects to earn new revenue from its strategic moves into mobile gaming, subscription-based games and other rapidly growing segments in large markets such as China, Singapore, India and Korea. CryptoLogic's investments in Asia are performing well and are meeting or exceeding the performance measures agreed at the time of the initial investment.

CryptoLogic's new leadership has established a focused strategy with four pillars:

- **Innovation:** CryptoLogic will continue to grow its core businesses by releasing more innovative casino games and using tournaments and other innovations to attract loyalty and liquidity to its licensees' shared poker room.
- **Expansion:** The company continues to target new licensees, and is in active discussions with various candidates. Thanks to excellent leverage from CryptoLogic's robust, scalable technology platform, substantially all incremental revenue goes directly to the bottom line.
- **Diversification:** The company will continue its diversification into Asia, and into mobile gaming and other promising segments of the Internet gaming market.
- **Acquisition:** CryptoLogic expects its recent investments and acquisitions to be accretive to earnings in 2008. With a strong balance sheet, the company continues to be proactive in pursuing opportunities that can enhance earnings for shareholders.

Based on these strengths and this strategy, CryptoLogic management is targeting a return to its 2006 revenue and earnings levels by the end of 2009.

I look forward to keeping our shareholders updated on our progress in the months and years to come.

Respectfully,

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Brian Hadfield

President and CEO

May 12, 2008

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, includes the notes thereto, for the three months ended March 31, 2008, and the audited consolidated financial statements and the MD&A of CryptoLogic Limited for the year ended December 31, 2007. This MD&A is dated May 15, 2008. 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 blue-chip client base ("licensees" or "customers") around the world who operate under government authority where their Internet businesses are domiciled.

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 Q1 2008 was \$19.3 million, or essentially flat when compared with the same period of the prior year. (Q1 2007: \$19.6 million). However after normalizing for certain non-recurring benefits recorded in Q1 2008 of \$1.0 million associated with revised estimates for future royalty payments and in Q1 2007 of \$4.5 million as the Company reduced its estimates for amounts required to discharge future jackpot payouts, revenue grew by 21% from the same period of the prior year.

Earnings in Q1 2008 were \$0.6 million or \$0.06 per diluted share (Q1 2007: \$1.5 million or \$0.11 per diluted share). The decrease in earnings is primarily due to the costs of change in senior management, a higher effective tax rate and decreased interest income in Q1 2008 as compared to

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the same period in the prior year as well as a non-recurring benefit recorded in Q1 2007 of \$4.5 million resulting from a change in estimate for amounts required to discharge future jackpot payouts, offset, in part, by the \$1.0 million benefit recorded in Q1 2008 associated with revised estimates for future royalty payments.

CryptoLogic's financial strength is reflected in its strong balance sheet. At March 31, 2008, the Company ended the quarter with \$81.0 million of net cash, which is comprised of cash and cash equivalents, restricted cash and security deposits, or \$5.81 of net cash per diluted share (December 31, 2007: \$77.5 million or \$5.57 per diluted share). The increase in net cash in Q1 2008 of approximately \$3.5 million is due to the cash flow provided from operations of approximately \$5.1 million offset, in part, by investments in other long term investments of approximately \$1.0 million and our continuing investment in capital assets. The Company continues to be debt free. CryptoLogic's working capital at March 31, 2008 was \$68.3 million or \$4.90 per diluted share. (December 31, 2007: \$68.2 million or \$4.90 per diluted share).

Fiscal Quarters	Fiscal 2008	Fiscal 2007				Fiscal 2006			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
In thousands of US dollars, except per share data)									
Revenue	\$ 19,317	\$20,350	\$17,503	\$16,244	\$19,562	\$18,984	\$27,690	\$30,351	\$26,997
Casino revenue	13,426	13,959	11,431	10,216	13,873	9,951	16,250	17,894	15,028
Poker revenue	4,234	4,615	4,765	4,986	5,157	6,711	8,300	9,279	9,641
Interest income	794	1,514	1,322	1,649	1,732	1,931	1,960	1,758	1,443
Minority interest	162	763	208	-	-	-	-	-	-
Net earnings and comprehensive income	609	4,273	2,392	(2,621)	1,484	1,712	7,244	8,194	7,662
Earnings per share									
Basic	\$ 0.06	\$ 0.36	\$ 0.19	\$ (0.19)	\$ 0.11	\$ 0.13	\$ 0.53	\$ 0.60	\$ 0.57
Diluted	\$ 0.06	\$ 0.36	\$ 0.19	\$ (0.19)	\$ 0.11	\$ 0.12	\$ 0.53	\$ 0.59	\$ 0.56
Weighted average number of shares (000's)									
Basic	13,932	13,927	13,917	13,901	13,817	13,630	13,601	13,586	13,415
Diluted	13,937	13,977	13,930						