

Betting the house

Online gambling proves addictive—even to the big casinos

BY MARCI McDONALD

For Patricia Erwin, a 36-year-old Sacramento, Calif., widow, the years following her husband's death were a depressing blur. When he was killed in a motorcycle accident two months after their 1996 wedding, leaving no will, she found herself confronted with huge hospital bills and a bureaucratic nightmare. Unable to sleep, she surfed the Internet in search of legal advice and happened instead on ads for online casinos. Suddenly, she started gambling her nights away, playing blackjack, roulette, and slot machines alone on her home computer. "I had way too much time on my hands," she says. "I thought, 'Gee, if I get good at this, maybe I can send a few thousand dollars to the hospital.'" By the time Erwin stopped betting last year, she had maxed out eight credit cards and racked up at least \$60,000 in debt. As a bookkeeper, "I go into these small businesses and tell people how to handle money," she says, "and I couldn't even handle my own."

Now Erwin is one of 33 plaintiffs who have launched class-action suits against Visa International, MasterCard International, and American Express, claiming the credit card companies and their issuing banks have no right to collect gambling debts. Their argument: Those companies were participating in an illegal racketeering enterprise. The cases have been consolidated in a federal court in New Orleans, where a judge is expected to rule within the next month on whether to hear them. For the credit card companies, the suits appear to be the last resort of sore losers. "It's pretty outrageous the courts are being used for this purpose," says Noah Hanft, deputy general counsel for MasterCard International. "There's an issue of consumer responsibility here."

But to others, those lawsuits are the latest attempt to put the brakes on the runaway Internet gambling industry, which last year raked in an estimated \$1.2 billion in revenues—an 80 percent increase over its 1998 take. "If the credit card companies aren't involved, there won't be any Internet gambling," says Barry Reed, the Min-

neapolis lawyer who filed the suits. "They're the lifeblood of these operations."

Still, few are betting with Reed that the often-shadowy industry, run mainly out of such offshore tax havens as Antigua and the Dominican Republic, can so easily be reined in. A report released earlier this year by stock analysts at Bear Stearns forecasts that online gaming revenues will nearly triple to \$3 billion by 2002. And despite Congress's attempts to outlaw the



business, the number of wagering sites on the Web has mushroomed from 40 in 1997 to at least 850. Now, in the most striking development to date, two of the nation's leading glitz-and-mortar casinos—long opposed to their unregulated online rivals—have suddenly positioned themselves to get in on the cyberaction.

No free buffets. In a surprise about-face in August, Kirk Kerkorian's newly created casino colossus, MGM Mirage, announced a partnership with Silicon Gaming to launch six play-for-free sites named after its Las Vegas showplaces like Bellagio. A week later, Harrah's Entertainment signed a promotional deal with one of the most popular computer game sites, *ivin.com*—a prelude to unveiling its own play-for-free online casino later this fall. "In the event

cybercasinos become legal, we want to be ready for it," says Harrah's spokesman Gary Thompson. "We don't want to be put in the position of trying to catch up with the rest of the gaming industry."

Sebastian Sinclair, an analyst with Christiansen Capital Advisors, predicts those moves could propel Internet gambling from the margins of American life to its mainstream as the best-known brand names in Las Vegas become the dominant players in cyberspace. But it also signals a shift in strategy by the major land-based casinos. After years of calling for the prohibition of wagering on the Web, they're now opposing any such initiative in Congress and pushing for its regulation by state authorities instead.

The change of heart comes from watching corporate rivals in other countries cash in on the growing online jackpot. In August, 16 months after winning the first virtual gaming license from the Northern Territory government in Australia, Las Vegas Online reported total revenues of \$77.5 million from 85,000 players in 210 countries. Meanwhile, both Monte Carlo and South Africa are considering offering a regulatory haven to Web casinos. "If there is a complete prohibition in the United States," says Alan Feldman, a spokesman for MGM Mirage, "that's going to lock American companies out."

But Feldman insists that the chief reason for the turnabout is the increasing sophistication of technology. Over the past two years, scanners have been developed to identify online consumers by their thumbprints or their retinas, and the use of intranets accessible only to subscribers has become commonplace—both tools that could help screen out minors or players without valid credit. According to Feldman, "The new technology has developed in a way that allows us to say, 'Yes, this can be regulated.'"

Authorities in Nevada—one of five states where Internet gambling is expressly outlawed—appear to agree. The state Gaming Control Board didn't betray a hint of opposition when MGM Mirage and Harrah's presented their schemes for moving toward virtual casinos. As analysts point out, licensing Web gaming would bring in-



THOMAS BROENING FOR USNS/PH

creased tax revenues to state coffers.

But the casinos' change of game plan has left their powerful Washington, D.C.-based lobbying arm in an awkward spot. Fresh from donating more than \$6 million to both parties this year, the American Gaming Association has thrown its clout behind prohibition bills in Congress that its leading board members now oppose. "The board is acting on a vote from a year and a half ago," Feldman says. "This thing is moving at light speed."

Off to the races. The AGA's ambivalence may have helped confound attempts by Virginia Rep. Bob Goodlatte to push his own ban through Congress before its adjournment last week. Some social conservatives charged that in conceding exemptions to such influential interests as the

Patricia Erwin, 36, thought online gambling winnings might help pay hospital bills. She wound up \$60,000 in debt.

● *"Gee, if I get good at this, maybe..."*

horse-racing lobby, his bill would actually expand the legal reach of Internet wagering. Other critics opposed any regulation of the Internet itself.

Meanwhile, the Justice Department is backing yet another bill that would update the 1961 Federal Interstate Wire Act to encompass Internet technology. In the only successful prosecution of an American for online gambling to date, the U.S. attorney's office in New York used that law, which forbids betting by phone, to win a conviction against Jay Cohen, a former

stock trader from San Francisco. Cohen is appealing his 21-month prison sentence and \$5,000 fine for running a sports-betting site called World Sports Exchange out of Antigua.

In June, Wisconsin's assistant attorney general, Alan Kesner, warned Washington lawmakers that if they failed to pass a ban this year, "There will probably not be another opportunity to get a bill through." But without regulation, U.S. casino operators fear an antigambling backlash from Americans victimized by shady cyberspace croupiers. Late last month, Sports Bet Online, a site operated by Star Games from the Central American nation of Belize, disappeared overnight from the Web without paying out credits to at least four players who have registered

complaints with the Interactive Gaming Council, based in Surrey, British Columbia. Now Star Games's Montreal phone number is no longer in service. Says John Shelk, the AGA's vice president of legislative affairs, "You don't want a scandal by some fly-by-night operator in the islands to give the whole industry a black eye."

Under scrutiny. Even an established company, such as Starnet Communications International, a leading supplier of cybergambling software, can find itself under scrutiny. British Columbia's Organized Crime Agency is still actively investigating the financial affairs of the company after a dawn raid on its Vancouver headquarters last year. A separate pornography probe of the company has been dropped, and Starnet has since sold off its adult entertainment division and moved its operations to Antigua.

In Washington, Justice Department officials have warned that some offshore sites are ripe for fraud and money laundering. "Internet gaming represents a significant opportunity for money laundering," says OCA Inspector Mike Ryan. "Where the site owner is involved with organized crime, then you could literally shovel the money through the system."

The entry of Las Vegas's best-known casino brands into the cybergame would likely squeeze out some questionable operators. But until that happens, the New Orleans class action suits by disgruntled gamblers may pose one of the few threats to online casinos. Last year, a similar suit against MasterCard was dismissed by a Wisconsin federal court judge. But in 1998, when a San Rafael, Calif., resident, Cynthia Haines, sued Visa and San Francisco's Provident National Bank for trying to collect her \$70,000 in Internet gambling debts, those firms settled out of court. Since then, Provident and a handful of other U.S. banks have refused to process Web gambling transactions. "If you're an Internet casino and the credit card companies refuse to deal with you," says Joseph Kelly, a professor of business law at the State University of New York College at Buffalo, "then you're in trouble."

That pressure may accelerate the move toward new forms of electronic payment, including E-cash. "You're going to see people moving away from using credit cards as the means for wagering," says Bear Stearns analyst Marc Falcone, "and into more of a smart card, debit card system."

But the prospect worries law enforcement officials attempting to monitor an already elusive industry. And any move to kick credit cards off Internet gaming tables will come too late for Patricia Erwin. If her lawsuit fails, Erwin will have to sell her house to pay off her debts. ●

BORDERLINE

Cybergambling on the reservation

At a former mattress factory on the sprawling Mohawk Territory of Kahnawake south of Montreal, security is tight. Visitors to the unmarked gray building along Route 138 are met with open hostility from a manager, who flatly refuses to allow a photographer inside. Not that the twitchiness isn't justified. Here, in a two-story fiber-optic jungle, an Indian-owned company called Mohawk Internet Technologies is playing host to at least nine cybercasinos—the only major online

The council was approached with the scheme three years ago by an investment group introduced by Michael Tobin, an American with dual Canadian citizenship who set up an office for New York State's Empire State Development Corp. in Montreal and had just failed in a bid to become mayor of Plattsburgh, N.Y. He is now the venture's managing director.

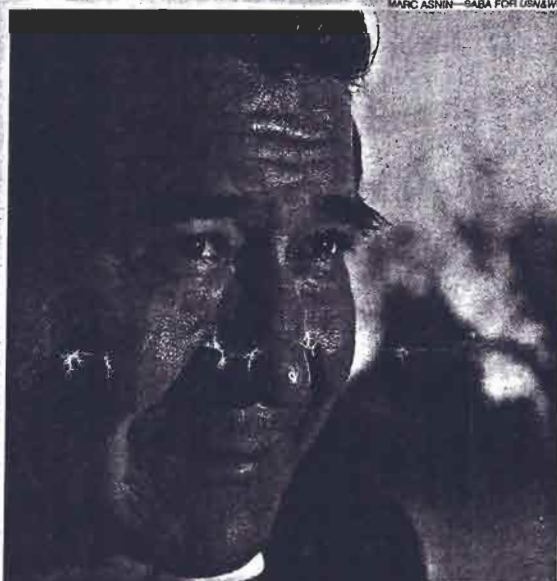
Piece of the action. According to Norton, the tribe had rejected earlier proposals to set up pornography sites. And some Kahnawake members, who

had voted down a 1994 casino project, also objected to a "virtual Vegas." Finally, in return for a \$2.5 million investment in high-tech equipment, the council revived its dormant Kahnawake Gaming Commission and hired Frank Catania, a former New Jersey gaming regulator, to draft its licensing code, charging \$10,000 per site, as well as an undisclosed slice of profits.

Among its licensees is Golden Palace Casino—rated last year by Greenfield Online as the most popular of 40 leading gambling sites—which boasts it now handles 15 million bets a week. Originally

licensed three years ago in Antigua, it moved to Kahnawake last year. "You don't have to worry about your Third World problems—your tornadoes and hurricanes," says a spokesman who would identify himself only as "Mr. Golden Palace." But he declined to divulge any information about his company, which is affiliated with Montreal's Cyber World Group.

Norton admits the venture remains in legal limbo and under surveillance by Quebec and federal authorities. But "Mr. Golden Palace" is wagering they won't challenge a tribe that seized control of Montreal's Mercier Bridge during a notorious 1990 armed confrontation. "It's too political," he says. —M.M.



Kahnawake Grand Chief Joseph Norton plays host.

● "We don't want to rub anybody's nose in it."

gambling sites openly operating from North American soil.

From that Internet server an hour's drive north of the New York State border, the tribe is testing the murky legal waters of the continent's virtual gaming laws. At a time when Canadian and U.S. authorities insist that running an online casino is illegal, the Mohawks are gambling that their sovereign status can give offshore cybergaming havens like Antigua a run for their money. Tribes on both sides of the border are eyeing the venture as a possible precedent. But Kahnawake Grand Chief Joseph Norton is reluctant to discuss that risky roll of the dice. "We don't want to rub anybody's nose in it," he says.