



SPECIAL REPORT: Vegas casinos gamble on online partners with a past

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SAN FRANCISCO, May 14 (Reuters) - To prime itself for the U.S. debut of legal online poker, MGM Resorts International, owner of such Las Vegas Strip monuments as the MGM Grand, the Bellagio and the Mirage, wanted a partner that knew the ropes.

So last October it hooked up with Bwin.Party Digital Entertainment Plc, a London-listed, Gibraltar-based specialist that rakes in more from Web betting than any other publicly traded company. MGM Resorts took 25 percent of a new venture 65 percent owned by Bwin.Party, with smaller Las Vegas casino operator Boyd Gaming getting the remaining 10 percent.

'We'll be out of the gate as soon as anybody,' MGM Resorts Chief Executive Officer Jim Murren boasted to investors in February.

Online expertise isn't the only thing that distinguishes Bwin.Party. In 2009, an earlier incarnation of the company paid \$105 million while admitting to U.S. prosecutors it had run an illegal gambling operation and engaged in bank and wire fraud.

Among its principal backers: a California-born woman who made a fortune in phone sex and Web pornography businesses that, like the pioneering online-gambling company that became Bwin.Party, faced multiple allegations of wrongdoing.

MGM Resorts' choice of Bwin.Party as a partner while applying for online poker licenses in Nevada might seem unusual. It isn't. The alliance reflects the calculated risks that major casino operators, Native American tribes and social-gaming giants Zynga and Facebook are weighing as they angle for a slice of a market valued at billions of dollars a year.

Caesars Entertainment Corp is prepping for online poker by tying up with an Israeli company that in 2007 acknowledged settlement talks with the U.S. Justice Department over alleged breaches of anti-gambling laws.

A group of Native American tribes in California has signed up to use software from another Israeli company, run by a man who served prison time for stock manipulation and bribery. Another tribe last week announced a deal with Bwin.Party.

Zynga, eager to convert some of its tens of millions of virtual poker enthusiasts into cash

gamblers, also has been in talks with Bwin.Party and others that have had brushes with the law, according to people familiar with the matter.

Meanwhile, offshore gambling outfit PokerStars is considering buying its chief offshore rival, Full Tilt, and making a run at the U.S. market even though founders of both were indicted by the Justice Department last year on charges of illegal gambling, bank fraud and money laundering, according to people familiar with the situation.

All this comes as Nevada prepares to license the first online poker operators and software suppliers late next month -- and as California, New Jersey, Iowa, Massachusetts, Delaware and other states debate similar moves.

Many of the cash-starved states, encouraged by intensive industry lobbying, have felt freer to act since December, when the Justice Department declared that one federal anti-gambling law, the Wire Act, would no longer be enforced beyond sports betting.

But casino operators, Indian tribes and Internet powers bent on offering online poker lack experience delivering it. Online poker is a business that involves processing billions of dollars worth of bets and battling the fraudsters, cheats and robot-player software that can ruin the games. Hence the casinos are cozying up to some tech-savvy offshore partners whose pedigrees might give regulators pause.

Most states have 'suitability' rules designed to keep crooks out of the gambling industry. Nevada requires that successful license applicants and their large shareholders possess 'good character, honesty and integrity.' Nevertheless, the big casino operators and their offshore partners are betting that regulators will look favorably on their license applications for two good reasons: tax money and high-tech jobs.

Early indications are that they are right.

At a hearing on a Caesars deal with the Israeli company last year, Mark Lipparelli, chairman of Nevada's Gaming Control Board, said: 'I don't think as we look at companies that we can have perfection as the standard, because I think that would be a disservice to the state in attracting business here.' The board unanimously recommended approval of the venture.

Gambling foes warn that states are putting fiscal worries ahead of public safety, exposing a huge and vulnerable population to the potential for compulsive betting. 'The governments are so desperate for revenues that they will partner with these lawbreaking outfits,' said Les Bernal, executive director of the nonprofit Stop Predatory Gambling Foundation in Washington, D.C. 'They will create addiction in order to feed off of it.'

PORN AND CARDS

Jim Ryan, co-chief executive officer of Bwin.Party, acknowledged in an interview that when the company was looking for U.S. partners, its history was a chief concern of MGM Resorts and other U.S. companies.

'Suitability is the very first question on all of their minds,' he told Reuters during a recent business trip to San Francisco.

It's easy to see why.

Bwin.Party grew out of PartyGaming, a brainchild of San Francisco-area native Ruth Parasol, who has a history as colorful as Las Vegas. After earning a law degree, Parasol first prospered in the 1990s through 1-900 phone-sex and other services that were sued by multiple states for aggressive billing and collection practices. In North Carolina's suit, the judge ordered a company she co-founded to pay \$270,000 in damages.

Then Parasol put her money behind Internet Entertainment Group, which gained notoriety for releasing an early Pamela Anderson sex video and promising an initial public offering that never happened. Employees accused the company of routinely overbilling customers, and Chief Executive Seth Warshavsky fled to Thailand as authorities investigated. Warshavsky didn't respond to an interview request.

Parasol managed to emerge unscathed, and in 1997 founded Starluck Casino in the Caribbean, providing online gambling to customers in the U.S. and elsewhere. The company had a big hit with its PartyPoker website, which became the dominant force in U.S. online cards, and then renamed itself PartyGaming.

Parasol, who has been living in Gibraltar for most of the past decade, declined requests for an interview.

In 2005, PartyGaming's IPO became the largest London had seen in four years, valuing the company at more than \$8 billion. Just then, debate over the U.S. legal status of online gambling flared.

The Justice Department had long argued that Internet poker violated the Wire Act and other federal and state laws. Despite the success of PartyGaming and other offshore companies, no U.S.-based companies offered alternatives for fear of prosecution.

In 2006, Congress clarified the matter by passing the Unlawful Internet Gambling Enforcement Act, or UIGEA, explicitly barring processing interstate or international poker transactions where state laws forbade such gambling. PartyGaming responded by pulling out of the U.S., leaving two-thirds of its players behind to be claimed by privately held offshore companies.

The law didn't snuff out online poker in the U.S. as players migrated to other offshore providers. Research firm H2 Gambling Capital estimates the U.S. accounts for about \$400 million of global annual online poker revenue of nearly \$5 billion, or 8 percent. Depending on how many states ultimately legalize online cards, that share could rise to as high as 28 percent in five years, the company says.