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Online poker industry ponders next move

Bust by Justice Department causes turmoil

By [Gregory Karp](#), Tribune reporter

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They're playing Texas Hold 'em poker on many websites all over the world, but probably not in Texas — or Illinois or Florida or anywhere in the United States.

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In the wake of a dramatic bust by the Justice Department, the poker industry is in turmoil. Three of the major sites — PokerStars, Full Tilt Poker and Absolute Poker — are inoperable in the U.S. Millions of Americans accustomed to playing cards at home on the top poker websites will need to find some other way to get their poker fix.

Whether the game has a digital future in America is anyone's bet.

"Along with everyone else in the poker world, I'm shocked," said Brandon Adams, a poker professional who has appeared in high-profile tournaments, including ones televised on NBC and ESPN and who maintains a teaching site at ExpertInsight.com. "The expectation was that there would be warning signs. These sites went from multibillion-dollar enterprises to on the ropes overnight."

The Justice Department and FBI on Friday announced charges against 11 people, including founders of three top online poker operations, alleging bank fraud, money laundering and illegal gambling offenses. The allegations relate to the poker sites' methods of accepting payments from gamblers, flouting a 2006 federal law that expressly prohibited it.

"They lied to banks about the true nature of their business," FBI official Janice Fedarcyk said in a statement. "Then, some of the defendants found banks willing to flout the law for a fee."

The legality of playing online poker for money is a murky issue. In fact, authorities are going after online poker operators, not individual players. But many regular players have found their accounts frozen by the feds, unable to access their money.

"Some players have literally millions of dollars in their online poker accounts," Adams said.

Maxwell Fritz, of San Francisco, said he has about \$65,000 at Full Tilt Poker that he can't get access to. He plays daily, claiming to have earned about \$200,000 over the past six months in a type of head-to-head

poker game that's not offered in live games.

"I just see it as a matter of individual rights," he said. "The government shouldn't tell me where I can or can't play a game of cards."

Instead of individuals, the law specifically addresses the payment system for funding accounts at online poker sites.

The 2006 Unlawful Internet Gambling Enforcement Act made it a federal crime to knowingly accept most forms of payment for Internet gambling. That shut off access to U.S. banks, and thus, the ability to accept wagers from U.S. gamblers.

After that law passed, leading online poker companies took operations out of the United States and continued to operate. They reassured players that it was OK to continue playing because account funding was an international transaction, outside the jurisdiction of U.S. law.

"Of course, that's laughable," said Brian Gallini, a University of Arkansas criminal law professor, but it promoted the image that it was OK.

Behind the scenes, the online poker companies came up with ways to "trick" banks and financial institutions into processing gambling transactions, the indictment alleges.

One deception involved purposefully misclassifying credit card transactions to something unrelated to gambling. That way, Visa and MasterCard allowed transactions to go through, despite policies that prohibited it, the indictment said. One method involved creating phony non-gambling companies, such as a flower shop and pet-supply store, which the poker companies used to initiate the credit card charges, the indictment alleged. When card companies discovered the ruse, poker companies would simply use other fake companies to process transactions.

Using fictitious companies to fund gambling account became a problem for some poker sites because credit card statements would not show the real poker site name but something like BicycleBigShop.com or GolfShopCenter.com, which players would not recognize and dispute with their credit card companies. The poker sites would then not be paid and gambling accounts not funded.

In other cases, poker sites found small, distressed banks that agreed to process transactions for lucrative processing fees, the indictment said.

In a statement, Full Tilt Poker officials said they "believe online poker is legal — a position also taken by some of the best legal minds in the United States."

PokerStars told players via its Twitter page that their balances were safe. It referred many to a customer-support e-mail address.

Cory Aronovitz, founder of the Casino Law Group in Chicago and an adjunct professor of gambling law at the John Marshall Law School, said the Justice Department is really after the payment processors, not so much the poker site operators.

"This is really a headline grabber that will probably not go anywhere," he said. "There really is no federal law that specifically prohibits Internet poker."

It's likely that the poker sites will continue to operate free poker sites, until federal and state legislation specifically allows them to operate wagering sites, he said. Then, as a regulated, licensed and taxed business, online poker playing will be safer for everybody and provide revenue for states, he said.

Legislation to legalize online poker is pending at the federal level and in a number of states, which would legalize online poker within a state.

"I believe this all but dooms any attempts to legalize Internet poker this year," said Lloyd Levine, a former state legislator in California and expert on attempts to legalize intrastate online poker. "This gives already reluctant and risk-averse legislators another reason to wait."

"The question of whether poker is illegal is at stake here," said John Pappas, executive director of the Poker Players Alliance. "We believe it not to be, but the DOJ has a different contention."

He said players are the victims. "At this point, they've been denied their hobby, their avocation and, in some cases, their livelihood," he said. "Players, for right now, are really left in limbo. It's going to be a day-by-day process on how it evolves."

Live poker gambling at casinos might be a short-term beneficiary of the crackdown. But often the two are not competitive but complementary, with players honing their skills in cheap, fast games online before gaining the nerve to play for higher stakes at a casino, said Adams, the professional player.

"But I think a lot of online poker players will just quit poker, and some online poker players will probably gravitate towards other forms of gambling, such as sports betting," he said.

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