

# Cash Drops and Keystrokes: The Dark Reality of Sports Betting and Daily Fantasy Games

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**THIS SHADOWY EXCHANGE** in June 2012 was remarkable for two reasons: The bag contained \$350,000 in cash, proceeds from an illegal Internet gambling ring; and the woman who took it was a New York real estate developer and prominent gay rights activist who has donated nearly a quarter of a million dollars to political candidates and causes. The previous month, the same woman — Joy Tomchin — accepted another bag with \$335,000 in cash.

In both cases, Ms. Tomchin said she had taken the cash on behalf of her brother, Stanley, who prosecutors say helped run the kind of gambling operation that has proved so difficult to stop: old-style bookmakers and money collectors, assisted by modern technology that enables offshore computers to record sports bets and payouts, illegal in the United States, beyond the reach of American law enforcement.

In 2006, Congress tried to help prosecutors defeat these criminal rings. With legislators rushing toward adjournment, they passed a bill just after midnight to make it more difficult to gamble on the Internet, and to preserve the integrity of college and professional sports, by prohibiting online payments for illegal bets.

By almost any measure, the law has been a spectacular failure, an investigation by The New York Times has found.

The law could not stem the tide of illegal betting because the industry thrives not on online payments but on an old-fashioned shadow banking system where billions of dollars pass through paper bags, car trunks, casino chips and various money-laundering schemes.

At the same time, Congress failed to grasp the power of the inexorably evolving Internet, or how difficult it would be to regulate. By allowing entrepreneurs to exploit a legal, if suspect, exemption, the law unwittingly opened the way for the now-ubiquitous fantasy sports games that increasingly resemble gambling.

Today, young men, the most susceptible to becoming problem gamblers, are using the Internet to risk thousands of dollars daily on sports without the legally mandated safeguards that casinos and regulated sports books must follow. In that regulatory vacuum, fantasy sports now faces a federal investigation, and a ban in Nevada, amid suspicions that employees at leading sites may have used inside information to gain an unfair players' advantage.

For their part, the professional sports leagues, having seen the profits to be made from fans' deep engagement with fantasy sports, are modifying or even abandoning their long-held opposition to traditional sports betting.

This confluence of events — at a time when legal gambling in casinos and other locations is gaining wider acceptance in America — is renewing an old debate about whether the best way to regulate sports betting is to legalize it or to give law enforcement more tools to stop it from spreading.

The Times, in collaboration with the PBS series “Frontline,” investigated illegal gambling in the Internet era, focusing on the 2006 law. Reporters interviewed regulators, prosecutors, gamblers and technology experts; visited data centers in the United States and abroad; examined thousands of pages of government records; and used advanced Internet technology to explore how offshore gambling sites serve American bettors.

To satisfy a hunger for information delivered right now, offshore gambling sites have developed a powerful digital presence on United States soil, close to their American customers but hidden, until now, from investigators.

While offshore betting sites say they do not solicit American customers, hundreds of them have begun delivering their content from servers in the United States or setting up fast, dedicated portals that directly transmit bets to their foreign locations. Experts in gambling law said those delivery networks could also be legally responsible if they knew or should have known they were facilitating illegal gambling.

To identify the physical locations of gambling websites, The Times, with the help of several Internet research groups, employed a combination of Internet tracing tools with traditional methods of investigative reporting.

When one New Jersey company was recently asked why it hosted gambling sites, the company initially denied it, then immediately removed more than 100 of those sites from its network. Another network removed two sites after inquiries.

In defiance of United States law, some offshore sports books openly solicit American customers with slogans such as “Because You Can.” One even helped a reporter fund an illegal wagering account, then later explained

how the transaction would be falsely recorded on his credit card as a purchase from a work clothes company.

Americans' continuing interest in offshore gambling sites is reflected in the tens of millions of computer visits during a recent 12-month period, according to a company that monitors Internet traffic. Indeed, illegal betting in the United States far exceeds legal wagering at casinos, according to law enforcement officials. Since 2006, the government has prosecuted more than two dozen major online gambling rings that took in \$10 billion in sports bets. One Texas-based ring processed \$1 billion during a single season of the National Football League before it was shut down.

Because the betting sites are based offshore, in countries where gambling is legal, American prosecutors say they are limited mostly to rounding up people who recruit bettors and move money in this country, leaving the overseas sites free to replace those who were arrested.

“People would argue that it’s a victimless crime, and it’s not,” said Richard A. Brown, the Queens district attorney, who has successfully prosecuted several gambling rings with Mafia connections. “Those who participate in it often use threats and intimidation.” Profits from these illegal rings also fund other criminal enterprises.

The 2006 law also failed to foresee how the developing Internet and a mania for ever-finer permutations of sports statistics would fuel a gold rush in fantasy sports.

At the time, fantasy sports was a low-key competition in which bettors assembled their own teams, then watched how their players performed over an entire season. The legal exemption for fantasy sports was based on its

definition not as gambling but as a game of skill. Today, fantasy sites offer daily contests, million-dollar prizes and bets on individual sports such as golf, mixed martial arts and Nascar races, magnifying the element of chance and making the exemption tougher to defend.

In recognition of the riches to be mined, the fantasy sports company DraftKings became television's No. 1 advertiser when it showed a commercial every minute and a half in the week leading up to the National Football League season, according to iSpot.tv, which tracks national television advertising.

“Why wait until the end of the season to see who was going to win? Let's do it every day,” said Jeffrey Derevensky, a psychiatry professor at McGill University who runs an international center that treats problem gamblers. “To bet on something with the potential to win more money or lose money is gambling.”

The businesses of fantasy sports and online gambling are increasingly intertwined. Operators of online gambling sites have begun investing in fantasy sports, and some of DraftKings' senior managers came from online gambling companies or were professional poker players. Some of fantasy sports' most successful players are former poker players, too.

In May, Bryce Mauro, a junior at DePauw University in Indiana, sat in a house he shared with fraternity brothers and bet \$12,000 — before lunch — on fantasy baseball games, with a plan to bet twice that amount later in the day. “I play probably between 450 and 500 different games a day,” said Mr. Mauro, who had finished classes for the year. Over the past two years, he said, he won several hundred thousand dollars.

Keith Whyte, executive director of the National Council on Problem Gambling, said, “There are people that are absolutely, 100 percent, uncontestably using daily fantasy sports to gamble.”

Dr. Derevensky said young people are adept at figuring out ways to gamble online. “What came as a surprise to us initially was that young people were really getting into serious gambling problems.”

He added: “We’ve seen people here who have been as young as 15.”

## Seeking a Solution

Concerned that organized crime was reaping huge profits from sports gambling, Congress in 1961 prohibited the use of telecommunications to transmit betting information. Another law specifically prohibited most forms of sports betting in all states except Nevada.

Over time, bookies circumvented federal law against taking bets over the telephone by setting up shop overseas. The arrival of the Internet greatly expanded their overseas business because it was quicker and cheaper, said Steve Budin, a sports handicapper who ran one of the early offshore sites.

That combination of technology and geography, Mr. Budin said, “took away the ability of the U.S. government to control it.”

Congress tried anyhow. “It’s a fallacy that people think you can stop Internet gambling,” said Mario Galea, a gambling consultant from Malta. “So you try to cut around it, to make sure that funds don’t reach the operation.”

After nearly 10 years of maneuvering, compromises and, ultimately, anger, the House of Representatives in its last official act before adjourning on Sept. 30, 2006, passed a bill at 12:32 a.m. that proponents believed would deflate the expanding Internet gambling industry by prohibiting credit card payments or electronic fund transfers for any illegal Internet wager.

#### **THE 2006 EXEMPTION**

“The term ‘bet’ or ‘wager’ ... does not include ... participation in any fantasy or simulation sports game or educational game or contest in which (if the game or contest involves a team or teams) no fantasy or simulation sports team is based on the current membership of an actual team that is a member of an amateur or professional sports organization...”

The language in the [2006 Safe Port Act](#) that explicitly exempts fantasy sports from online gambling restrictions.

Chris Grove, who writes an influential blog, *Legal Sports Report*, questioned whether the bill’s authors even knew what they hoped to accomplish. “You’re talking about a law that was passed with no input, that was passed with no consideration, no deliberation, no debate,” Mr. Grove said.

To ensure passage, and with legislators eager to adjourn for the 2006 elections, the House leadership hastily attached the gambling bill to legislation aimed at making ports safer. Not everyone was pleased.

“What does banning Internet gaming have to do with port security?” Representative Shelley Berkley, a Nevada Democrat, asked on the House floor. Another Democrat, Representative Bennie Thompson of Mississippi, complained that the Republican House leadership refused to accept any amendments to the ports measure, but did attach the gambling bill.

“I ask someone to explain to me how prohibiting Internet gambling is more important to our homeland security than making our trains, subways and buses safe,” Mr. Thompson said.

Two weeks later – on Friday the 13<sup>th</sup> – President George W. Bush signed the bill into law. While Internet gamblers might have seen that date as confirmation of their bad luck, other bettors had reason to rejoice. Embedded in the bill was the language exempting wagering on fantasy sports, except in the five states that consider it illegal – Washington, Louisiana, Arizona, Montana and Iowa.

Representative Jim Leach, the Iowa Republican who sponsored the bill, said he objected to the fantasy sports exemption, but compromised to secure some restrictions on Internet betting, which he regarded as a clear and present danger. “You can get over your head quite quickly in a very dangerous kind of way,” Mr. Leach said.

Some legal experts were surprised that the National Football League played a crucial behind-the-scenes role in securing the bill’s passage – despite the league’s long-held opposition to sports betting. “It’s universally recognized that their advocates were the main strategists,” said J. Daniel Walsh, then a lobbyist for the Interactive Gaming Council, which opposed the bill.

N.F.L. officials did not respond to requests for an interview.

No one envisioned then that seasonal bets on fantasy teams would open the door to daily wagering and million-dollar prizes.

“It speaks to that fundamental question of, is this a gambling activity?” Mr. Grove said. “And more to the point, how many elements of a gambling activity can be associated with daily fantasy sports before the scale tips and everyone just says, yes, that this is clearly gambling?”

A few experts warned that the rapid, unregulated growth of fantasy sports might prove its undoing.

Last spring, Gus Fritschie, who provides online security to gambling companies, said that if fantasy sports companies were found to have allowed players to have access to betting information not available to the public, the industry might be irreparably damaged. “Daily fantasy is not doing enough to protect the players and to protect themselves or their industry,” he said.

In a few short months, those unheeded warnings would loom large over the billion-dollar industry.

## Merchant Code 7995

If the 2006 law hoped to stanch the cash flow of illegal wagering, it was doomed to fail, in large part, by the gambling industry’s architecture.

Illegal offshore bets can be placed several ways.

Many of the sports books, while operating legally elsewhere, rely on a system of agents who steer business to them in the United States and move

the cash. While the books say they do not condone illegal actions by the agents, it is beyond dispute that the agents have generated billions of dollars in revenue for the sites.

High-rollers usually must be vetted by the agents, before getting passwords to their favored offshore sites where computers post odds, process wagers and maintain player accounts.

To avoid illegal credit card transactions, wagered money usually remains in the United States, creating the need for the shadow banking system. Bettors settle up in person with the ring's agents or money collectors.

“Boots on the ground” are a must, said Gerard A. Brave, chief of the rackets bureau for the Queens district attorney, who helped break up several large gambling rings, including the one where cash was passed in shopping bags on Fifth Avenue.

“It will happen in a desert in California, it will happen on the streets of Manhattan and it will happen right on the Strip in Las Vegas,” Mr. Brave said. “Money has to be passed. They don't want records of those large cash transactions.”

When the police confronted Ms. Tomchin with pictures of her receiving the cash, she said she was merely a conduit for her brother. Gerard McNally, a New York City police detective, now retired, said he asked Ms. Tomchin to show him the money. “And she did,” he said. “She took us to the bank where the money was and she brought us into the safe deposit box and opened it up.”

Ms. Tomchin eventually turned over \$450,000 in cash, Mr. McNally said. She was not indicted, but the Queens district attorney did charge 25 people,

including Ms. Tomchin's brother, who was identified as a senior operative of Pinnacle Sports, the website at the core of the vast gambling ring. Pinnacle itself was not indicted; Mr. Tomchin forfeited \$1.7 million and pleaded guilty to a misdemeanor. Ms. Tomchin did not respond to requests for comment.

When credit cards are used, deception, if not outright fraud, is often used to evade the 2006 law, as a reporter discovered when trying to place a wager on a Panamanian site called BetOnline.com.

The reporter registered with the site in May, but logged off after having difficulty putting money on the sports book. Then, true to its advertising slogan, "Because You Can," a representative of BetOnline called the reporter to help open an account using his Visa card, with a sign-up bonus of half the amount deposited.

The transaction should have reflected the merchant code for gambling — 7995. But this bet was recorded on Visa as a purchase from Moser Safety, described on its website as "one of the leading suppliers of personal protective equipment, safety clothing, protective workwear and safety equipment in the U.K." The site includes pictures of hard hats, goggles and work boots, along with links to "safety tips" and "testimonials."

A reporter called the telephone number for Moser Safety listed on the credit card bill and was told no safety gear was for sale. "We're a third-party payment support service for gaming and betting sites," said a woman who identified herself as Anna Richardson.

Asked whether her company was helping an online gambling ring evade United States law, Ms. Richardson replied, "I'm not sure, actually."

Over a recent 12-month period, the BetOnline website recorded 11.3 million visits from computers, most originating in the United States, according to an independent company that monitors website visits. The statistics do not distinguish between bets and casual visits to the site. “Our traders are not afraid of big action,” BetOnline said in a 2011 news release. The company did not respond to requests for comment.

The Times placed wagers through two other popular online gambling sites, Pinnacle, based in Curaçao, and Bovada, hosted at a data center on Mohawk territory across the United States border in Canada.

Times reporters tried to interview Pinnacle officials at their office in Curaçao, but were accused of trespassing and told to leave. Later, in a statement, Pinnacle said that it “pulled out” of the United States in 2007 and that since then, “we have never knowingly taken bets from the United States.” The reporter who placed the bets, the statement said, provided “a false affirmation to an agent” that he was not a United States resident.

In fact, the agent’s website instructed gamblers using the Pinnacle site to use a proxy service to log on when making bets, to make it appear that the connection was not coming directly from the United States. The agent instructed the reporter to wire money to an intermediary in Krakow, Poland. The money was then credited to the reporter’s account, which falsely listed him as living in Macau.

The Times opened its account with Bovada using a post office box. Bovada followed up with an email advising that deposits “will often show up on your credit card statement as billed by a foreign company with a name other than Bovada.” It cautioned: “In the event your bank contacts you to

verify these transactions, we wanted to send you a quick note to remind you of the billing descriptions.”

During one recent 12-month period, Bovada received 190 million visits from computers, with 97 percent coming from the United States, according to an analysis of Internet traffic.

## Overlooked Leads and Roadblocks

When American prosecutors say offshore gambling sites are beyond their legal reach, they may not realize what solid leads exist just around the corner.

Three years ago, the United States attorney in New Jersey charged 13 people tied to the Genovese organized crime family, including a made member, in connection with the online gambling site Beteagle.com, based in Costa Rica.

The prosecutor, Paul J. Fishman, said a “new wrinkle” in mob-run gambling rings involved the processing of bets offshore. “Law enforcement will use countermeasures that are just as sophisticated to bring these criminal enterprises to justice,” he declared.

The authorities did not charge Beteagle itself, nor did it vanish. Several months ago, using electronic search tools, The Times discovered that Beteagle was being hosted on equipment in Piscataway, N.J., just 28 miles from Mr. Fishman’s Newark office.

Generally, a website resides on a server — a type of bulked-up desktop computer connected to the Internet, usually a rectangular box with no screen or keyboard, but containing chips and a spinning hard drive to process and store data. When linked across the world with fiber optics, copper wires and other means, servers give the Internet its computational power.

Servers can host websites, keep accounts, store wagers and work at speeds that back-room bookies, whose tools had not changed since the days of Damon Runyon, could never hope to match. Servers can also be harder to find and raid than those back rooms were.

The Times, in researching Beteagle's location, uncovered a nest of more than 100 online gambling sites — none licensed by the state — connected to the Internet at the Piscataway data center. (Online sports betting is illegal in New Jersey, though other forms of online gambling are permitted.)

Records show that content for the gambling sites was delivered by Vultr L.L.C., a New Jersey company run by an Internet entrepreneur named David Aninowsky. In 2013, the government of France ordered one of Mr. Aninowsky's companies to stop hosting a gambling site in that country because it was unlicensed.

A spokesman for Mr. Aninowsky, Sean Flanagan, said that while Mr. Aninowsky did host gambling sites in New Jersey, he did not operate them.

Mr. Flanagan later said he had misspoken, and that Mr. Aninowsky's companies "do not host any gambling." If any gambling sites were found on his network, he said, "their account would be suspended."

A subsequent statement from Don Perry, director of operations for another Aninowsky company, Choopa L.L.C., said, “If you are aware of a gambling site(s) operating on any part of our infrastructure, please let us know.” He added: “We will continue our exhaustive search to find and terminate these sites you have alluded to.”

Within days, the gambling sites left Vultr and are now operating on another network in the United States.

A spokeswoman for New Jersey’s Division of Gaming Enforcement, Kerry Langan, said the agency had not been aware of the Piscataway gambling sites. “The division routinely refers possible illegal activity to the appropriate law enforcement agencies and will certainly do so in this case,” she added.

The Times also found that BetOnline — where deposits to gambling accounts are recorded as purchases of safety gear — and another offshore site, BetCRIS, were being routed and secured by the world’s largest content delivery network, Akamai Technologies, a highly respected company in Cambridge, Mass., that speeds Internet communications for many of the world’s major corporations.

Asked about it, Akamai issued a statement saying, “Upon being made aware, Akamai took swift action to notify these two companies and discontinue service.”

The Times also traced Internet traffic to the popular offshore site Bovada.

At the request of The Times, Doug Madory, director of Internet analysis for [Dyn](#), an Internet performance company, analyzed the routes by which computers in the United States gained access to Bovada. Mr. Madory

concluded that United States Internet traffic is funneled through a private network to the data center on the Mohawk reservation.

The private network, which provides direct links to havens of gambling infrastructure like Malta, Gibraltar and the Isle of Man, is called Continent 8 Technologies and was co-founded by J. Michael Tobin, a former director of Empire State Development, the lead economic development agency for New York State, records show. The Mohawk data center is managed by Continent 8.

A spokesman for Continent 8, Keith Furlong, said that all of the company's gambling clients must be licensed, and that Continent 8 has no authority over their content.

Continent 8, which is based on the Isle of Man, is licensed to operate in New Jersey. When told that Continent 8 was hosting Bovada, Ms. Langan, at the state's gaming enforcement agency, called Bovada an illegal website and said, "Continent 8 has an obligation to conduct due diligence with respect to its customers." If the company knowingly did business with an illegal gambling operator, she said, her agency "would commence regulatory proceedings."

Bovada did not respond to requests for comment.



In Plano, Tex., a bookie in an Internet betting ring brought his \$1.2 million forfeiture to court in cash. Credit U. S. Attorney's Office

Offshore gambling sites can be difficult to prosecute, requiring hundreds of hours of labor-intensive work, sources, wiretaps and surveillance. “There are not a lot of people in law enforcement who know how to do these types of cases,” Mr. McNally, the former New York City detective, said.

Even if they do, prosecuting other crimes may be deemed more important than stopping illegal gambling.

Curtis Coburn worked years undercover for the Plano, Tex., police, building a case against a major gambling ring run out of Curaçao. “It was hard to convince people that it was as big as it was,” Mr. Coburn said. Twice the federal government assigned an agent to the case, but both times the case was shut down. “It was very frustrating.”

Eventually Mr. Coburn contacted a federal agent he knew and they convinced the Justice Department that the gambling ring was a worthy target. By the time prosecutors broke the ring in 2012, it had processed bets worth billions. One of the ring’s leaders, Mr. Coburn said, told other

bookies that he had accumulated so much money that he put \$20 million into the wall of a house.

The gambling proceeds were used to buy condos in Las Vegas, a casino, gold coins and even railroad boxcars. One ring member, when ordered to forfeit his ill-gotten gains, brought \$1.2 million in cash, stacked it on the courtroom table, then offered to take everyone out to lunch with his last \$100 bill, according to federal agents who were present.

The offer was declined when the judge said he wanted the \$100 for court costs.

## Chasing Ghosts

Offshore gambling sites, hoping to do business in countries where gambling is legal, are often licensed in small island jurisdictions like Malta, Alderney in the Channel Islands, and Curaçao, just off the Venezuela coast, as well as in Costa Rica.

Mr. Galea, the consultant on gambling regulation, said the islands took on this responsibility as a way to solicit e-commerce. “Today 12 percent of the G.D.P. in Malta depends on online gaming,” said Mr. Galea, who set up the gambling commission there.

While Malta strictly oversees these sites, he said, other countries, like Curaçao, have been less vigilant. Experts say strict regulation offers some protection against illegally accepting American customers.

“Curaçao believes very much in self-regulation, Mr. Galea said, adding that attempting to find a gambling regulator there would be like “trying to call a ghost.”

The Times gave it a try during a recent visit to Curaçao, home to gambling sites that have processed bets from multibillion-dollar criminal betting rings in United States. But no one in authority there would agree to talk in specific terms about the island’s online gambling industry — not the governor, who issued gambling licenses; not the Ministry of Justice; not the Ministry of Economic Development.

A representative of the Gaming Control Board agreed to talk, but changed his mind while a reporter was en route.

Given the United States’ position toward online gambling, said Zulaika Mook, Curaçao’s director of Economic Development and Innovation, “there is no benefit to further deepen this topic.”

The Curaçao government has issued six “master” licenses for online gambling, with each license holder having the authority to issue sublicenses to other gambling entities without the government knowing about it, according to Emily Cannister of the Justice Ministry.

Mr. Galea believes that online gambling must be regulated. Two years ago, he helped the state of New Jersey set up its own regulatory structure after some forms of online gambling became legal there.

“I happened to work pre-regulation days and I have seen a lot of people suffer online because they never saw their winnings,” he said. “We saw a lot of people with gambling addiction problems who couldn’t go to anybody for help because they knew they were doing something wrong.”

Steven Elman, who is self-employed and lives in a Boston suburb, said he began betting on BetCRIS, based in Costa Rica, about two and a half years ago, after a friend vouched for him and secured a password from an agent Mr. Elman knew only as “Tripper.”

Mr. Elman described himself as a gambler BetCRIS does not covet — he bets small amounts online, and only on boxing, not on team sports like baseball, basketball or, especially, football. “If you bet on a sport that’s just one-on-one, like boxing, there’s less things that can go wrong,” he said.

Mr. Elman said he collected his winnings a few times, but then that stopped even though he kept winning. Recently, he said he was owed \$3,600, but all methods he previously used to contact Tripper no longer work.

A representative of BetCRIS said the site “does not allow U.S. located persons to open or maintain accounts.”

Yet Mr. Elman said that he found a number for BetCRIS after signing on to his betting account on his mobile device, then called to complain. “They said you have to talk to your agent, and I said this is why I’m calling you because I don’t know who the agent is.” This situation repeated itself with no one returning his calls.

Even so, Mr. Elman said he continued to place small bets and the website continued to tally his results. “I’m just treating it like a video game,” he said. “Just seeing how high I can get my score. No expectation of getting paid.”

After all, he can’t exactly Google “Tripper” to learn his identity.

“I can’t hunt down a ghost,” he said.

# Target: Millennials

Three years after Congress granted a legal exemption to fantasy sports, little had changed in the fledgling industry. Competition remained mostly seasonal and slow to unfold.

In 2009, a new company, FanDuel, entered the picture. “Despite fantasy being a large market, it was an aging market,” said Matt King, FanDuel’s chief financial officer. To shake up this “stagnant” business model, the company decided to focus on the millennial generation — “a very hard-to-reach but very important demographic of 18-to-35-year-olds,” he said.

FanDuel’s goal was simple: Make the game mobile and make it fast. “We have been innovating on that format ever since,” Mr. King said.

By far the biggest change has been the introduction of daily fantasy sports. “We have several million paid players, and that’s growing every day,” Mr. King said. “Right now we are signing up 20- to 30,000 players every day.”

Million-dollar prizes are now common, not just for FanDuel but also for its chief rival, DraftKings. Yet unlike casinos and racetracks, fantasy sports continues to operate free of state or government regulation.

In an interview before the fantasy sports scandal broke, Mr. King said he saw no need for regulation. “Our product is all about entertainment value,” he said. Last week, after questions were raised about bettors using inside information, the company said it was taking steps “to ensure the integrity of our site and our games.”

DraftKings is even more aggressive in venturing away from the original fantasy concept. Run largely by poker players and gamblers, DraftKings has started expanding into nonteam sports. It has also begun offering fantasy sports contests in the Hooters restaurant chain.

Fantasy sports companies have also started enticing players with lottery drawings and money for recruiting other players. A new one, called [Syde](#), offers an app that essentially removes most of the skill from picking players.

“Syde removes the tedious element of building a team or filling positions, and instead provides pre-populated, easy-to-understand games,” according to the company’s website. “Every Syde sends out a game (or a few games) via the app. Syde A vs. Syde B. The player picks the side they think will win.”

What may be DraftKings’ most daring venture, given the industry’s aversion to the word “gambling,” is a partnership with the World Series of Poker, a multimillion-dollar gambling spectacle televised by ESPN. To qualify for the World Series’ main event, players must win smaller tournaments and play in one of a handful of states where poker is legal.

An exception is made for fantasy sports players. Win enough at fantasy sports online, and DraftKings offers a \$10,000 seat at the final poker tournament in Las Vegas. One fantasy player who won a seat this year is Max Steinberg, one of many former professional poker players who switched to fantasy sports after three major illegal poker websites were shut down on April 15, 2011, now known as Black Friday.

Mr. Steinberg said there were similarities between poker and daily fantasy sports. As to why fantasy players get special treatment over regular poker players, he said, “It doesn’t make any sense.”

DraftKings declined to be interviewed for this article.

Fantasy sports has intersected with gambling in other ways. Matthew Boccio, who assesses the value of athletes picked for teams on FanDuel, had been a sports-book analyst at Pinnacle. Mr. Boccio recently won \$50,000 at DraftKings, according to the DraftKings website.

Jeffrey S. Salvati, a director of Impact Fantasy Sports, a company focusing on fantasy sports game development, said he also has a stake, along with the professional boxing champion Manny Pacquiao, in two online sports books — both licensed in Curaçao.

Mr. Salvati, who recently moved from Pennsylvania to Las Vegas, said his two online gambling sites, Ubet.ag and Vitalbet.com, were run by a business partner and did not accept American customers. But after examining Internet traffic, The Times found that Ubet is hosted in the United States, and that Vitalbet’s content is delivered at multiple locations around the country.

In addition, online traffic measurements maintained by a company called SimilarWeb show traffic to these sites from the United States over the last 12 months. “There is a difference between traffic to a site and signing up actual players,” Mr. Salvati said.

Perhaps the greatest beneficiaries of fantasy competitions are the professional sports leagues, which have long opposed legalizing gambling.

Mr. King, the FanDuel executive, said his company had partnerships with more than two dozen professional sports teams that openly embrace fantasy sports because it increases viewership and, they contend, does not threaten the integrity of the game.

“I think fantasy sports is a way to legalize gamblers’ interests in sports betting without legalizing sports betting,” said I. Nelson Rose, a law professor who has written extensively about gambling issues. “It is a way for the professional sports teams to have it both ways.”

## The Price That Is Paid

Jeffrey Derevensky is not antigambling.

“Personally, I don’t object to gambling,” said Dr. Derevensky, the McGill psychiatry professor who runs a center for problem gamblers. “I object to young people gambling, because they don’t have the ability to set limits both in terms of time and money.”

Which is why youth gambling in the Internet era so concerns him. Young people, particularly young men, are greater risk takers, while access to gambling has never been easier, he said. From 2 percent to 4 percent of young people have gambling problems, Dr. Derevensky said, citing what he said was the best available research on the topic.

Young men, he said, tend to believe that by playing and watching sports they can better predict the outcome. “I dealt with a sports announcer who lost \$100,000 on one Sunday playing football,” he said. “He came to me, and he said, ‘If a monkey was throwing darts at a board, the monkey would

have done better than I did. How could I lose 12 out of 13 games when I know all the statistics?’ ”

Counselors who work with problem gamblers say fantasy sports carries with it the same concerns as other forms of gambling, especially because most players end up losing money. Legislators and sports executives who believe otherwise, they say, are deluding themselves. Indeed, a study in the Sports Business Journal found that in the first half of this year’s major league baseball season, 91 percent of daily fantasy profits were won by just 1.3 percent of players.

Increasingly, the worlds of illegal betting and fantasy sports are merging, said Mr. Whyte, who leads the National Council on Problem Gambling. “There is an enormous overlap between people who bet on sports, people who play fantasy, and people who play daily fantasy,” he said. “Are people getting into trouble? I can answer that absolutely, unequivocally, yes.”

He cited a man under age 30, living in the Midwest, who knew he had a gambling problem and so switched over to daily fantasy sports. He lost \$70,000 in three months. “The closer you get to daily fantasy sports play, the more likely you are to gamble, gamble on sports and gamble illegally,” Mr. Whyte said.

The public does not fully understand fantasy sports, according to Dr. Timothy W. Fong, co-director of the gambling studies program at the University of California, Los Angeles. “The only reason they don’t call it gambling is because the law tells them if they call it gambling, then they can’t do it,” he said. “Because it’s gambling.”

Mr. Mauro, the DePauw student who said he had won several hundred thousand dollars playing fantasy sports, disagrees. It is more like “investing,” he said. “I have a portfolio; I’m trying to diversify the portfolio by picking players every day.”

He acknowledges that the hours he spends drafting teams conflict with his schoolwork. “I would probably say it’s impacted it negatively because, I mean, it comes to studying for a test or betting \$20,000 in a night, you’re probably going to choose spending the extra time on the \$20,000 bet,” he said.

“But, I still get good grades.”

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