

The gamble that misfired for online betting entrepreneurs

As David Carruthers, the ex-Ladbroke's bookie, sat in an American jail yesterday accused over an alleged USD 4.5 billion (GBP 2.42 billion) illegal gambling racket, he must have wondered why he had been quite so brazen. BetOnSports, which claimed to be the world's biggest gambling website, seemed to enjoy nothing better than goading US prosecutors.

The arrest of Mr Carruthers, the company's Scottish chief executive, by FBI and tax agents as he passed through transit at Dallas airport last Sunday is being hailed as the start of a ruthless new clampdown by the authorities on internet gaming. But the moment of impertinence that eventually led to BetOnSports's problems was lovingly recorded back in 2002 by the St Petersburg Times in Florida: "Four men stood near a garishly painted motor home parked in front of Raymond James Stadium. It was Sunday, Buccaneers game day.

"They tossed footballs, T-shirts and hats to the throngs of fans walking into the stadium. 'Action you can bet on!' said the letters on the side of the motor home. 'World's Largest, Legal and Licensed Sports Book.' Two Tampa police detectives who passed by the display disagreed ..."

The policemen walked into the mobile home, placed a bet on the American football team, then pulled out their badges and arrested four men taking bets ranging from USD 25 to USD 100,000. Mr Carruthers told the newspaper that the bets were completely legal because they were placed via the internet to Costa Rica, BetOnSports's home, where gambling on sports games is allowed.

"You have a great law in the US," he said. "It's called free speech." He boasted that BetOnSports spent tens of millions of

dollars on advertising, including slots on Howard Stern's radio show.

The four men, working for the Miami company Mobile Promotions, had been hired to advertise and promote the betting site, Mr Carruthers said. Then he made his fateful error. He bragged that he had asked the company to drive another mobile home, emblazoned with the BetOnSports name, to the forthcoming St Louis Rams match against the Seattle Seahawks.

That journey to the Midwest state was a trip into the lion's den. The US Attorney for the Eastern District of Missouri had just begun a crusade against online gaming. That campaign married old-style temperance zeal with an imaginative use of the legislative armoury. The attorney even employed the Patriot Act, which bans transmitting funds from lawbreaking, to make eBay forfeit USD 10 million taken by its PayPal service for online gaming companies.

BetOnSports strove to impart an upbeat, cheerful image. Peering under the stone, Missouri prosecutors found hardened veterans of the tough world of illegal gaming.

Gary Kaplan, the man behind the company and a neighbourhood bookie from New York, had been arrested in his home state on gambling charges as long ago as 1993, according to a Grand Jury indictment against him, Mr Carruthers, BetOnSports and others, which was unsealed this week. Mr Kaplan sought the shelter of the island of Aruba in the Dutch Antilles. He established freephone telephone lines and internet websites to take bets from American punters. He moved the business to Costa Rica in 1998. A thuggish, cruel flavour characterised some of the unusual bets he took. Would Bobby Brown, Jean-Claude Van Damme or Dennis Rodman be the first to be arrested for beating his wife? "I'm a believer in Rodman all the way, so the odds on him were short," Mr Kaplan told the Miami Herald. "Bobby Brown, you think maybe Whitney will keep him in check a little bit, so we put him down at the bottom."

Ahead of BetOnSports's flotation in London, he arrived at a meeting with potential City advisers wearing a silver-grey mohair suit, black shirt and snakeskin shoes. To one of the bemused consultants, he bore a remarkable visual resemblance to Joe Pesci's character in the gangster film GoodFellas. They decided not to represent him.

Mr Kaplan's hobby is target shooting in a firing range at his tower-block headquarters. He seems nervous of strangers knowing his face, insisting that workers call him Greg Champion or, in front of visitors, just "G". So opaque is his history that some believe that he really is called Greg Champion.

The business is kept in the family. His brother, Neil Scott Kaplan (pseudonym "Scott Kaye"), purchases goods and services; his sister, Lori Beth Kaplan Multz (pseudonym "Beth Wilson"), arranges advertising.

Gary Kaplan is forever surrounded by bodyguards and is said to carry a handgun. He claimed to have no fear of the FBI. "They haven't charged anyone," he said, "since 1998, and I don't think they will."

Yet America has been taking an increasingly dim view of online gambling. One theory is that the indictment against BetOnSports aims to promote the anti-gambling lobby's perception that internet gambling is rife with racketeering, fraud, conspiracy and tax evasion.

Jon Tarasewicz, a leisure analyst at Deutsche Bank's City arm, suggested that the action may be aimed specifically at the Kaplans and their associates. The family had run physical gambling operations before going offshore and BetOnSports made greater use than rivals of telephone betting, in contravention of the Wire Act in America.

Mr Tarasewicz said: "If this is not driven by trying to get at the founders and is genuinely the start of an industry

clampdown, the timing seems odd, given that politicians have passed legislation through Congress whose whole point is that existing legislation is not robust enough to prosecute anyone."

Mr Carruthers joined Ladbrokes as a teenager in 1976. He became Mr Kaplan's chief executive in 2000. Some employees were disgruntled with the Briton's management style and whistleblowers came forward to help the FBI with its investigation.

If ever shares of BetOnSports resume trading, they are expected to be almost worthless. Investors in the company are considering their legal position over the level of disclosure about its business history in the firm's flotation prospectus.

The document, prepared by the company's City adviser, Evolution Securities, then called Evolution Beeson Gregory, made no reference to Gary Kaplan's colourful past. Nor did it mention that he controlled Boulder Overseas Corporation, the Panama-registered firm floating BetOnSports. The only reference to Mr Kaplan was a single paragraph on page 65 of the 68-page document, revealing that he would be paid USD 150,000 a year as a consultant.

It emerged this week that Evolution faced tough questioning from London Stock Exchange regulators over Mr Kaplan before the 2004 flotation. The firm had been alerted to his questionable past, continuing consultancy role and 40 per cent shareholding (now reduced to 14 per cent).

Although listing particulars need normally provide background only on board directors, investors believe that they should have been told about Mr Kaplan's past. "If he was effectively acting as a shadow director, there should have been greater disclosure," one said.

Evolution, however, has rejected the suggestion that it should have disclosed Mr Kaplan's chequered past, given that he was

not a director. "Did Evolution fulfil their obligations in terms of disclosure? Absolutely," a spokesman said.

He added that Evolution had had "full and open discussions" with regulators ahead of BetOnSports's listing on the Alternative Investment Market and that "they seemed happy with the details provided".

Investors cannot complain about Evolution's disclosure of the risks of taking American bets. In nine pages of "risk factors", it gives warning that "sports betting in the US via the telephone or internet are in violation of existing US federal laws". Evolution adds in the document that there may be "at least some risk that such liability may extend to shareholders", especially US citizens, but minority shareholders would be unlikely to face prosecution.

The prospectus suggests that it would be "difficult ... for a director to be prosecuted on a criminal charge ... if he were not physically present in the US. Further, any such director would be unlikely to be successfully prosecuted unless he were a US citizen."

Mr Carruthers, for one, must be praying that this legal advice turns out to be accurate.