

Poker site cheating plot a high-stakes whodunit

\$75 million claim filed against Canadian software firm with murky pedigree

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A correction has been made to this article. An earlier version reported the amount of the claim as \$85 million U.S.



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Allegations that cheaters manipulated the software powering a leading Internet poker site so they could see their opponents' hole cards have triggered a \$75 million claim against a Canadian company, msnbc.com has learned.

The alleged subterfuge on UltimateBet.com — one of the 10 top poker sites — is the biggest known case of fraud targeting an Internet gambling site and its customers, according to the company that owns the site. It is similar to a case of cheating that occurred last year on UltimateBet's sister site, AbsolutePoker.com, but this time the thieves ran the scheme for far longer — at least from January 2005 to January 2008, it said.

Word of the \$75 million U.S. claim (\$80 million Canadian) — the first indication of the scope of the alleged cheating — emerged this week when msnbc.com contacted a court-appointed liquidator overseeing the voluntary dismemberment of Excapsa Software Inc. of Toronto, which formerly owned and licensed the poker software to UltimateBet and other gambling sites. The claim was filed by Blast-Off Ltd. of Malta, a private company that currently has an ownership

"We're taking it seriously and are in contact with the stakeholders with a goal of settling the claim," said the liquidator, Sheldon Krakower, president of XMT Liquidations Inc. "... It's a very touchy situation. We're just trying to get everything done."

Krakower said the amount of the claim did not directly correlate with the amount believed to have been stolen from UltimateBet players, but he declined to provide additional details. He said he was hopeful that the parties were nearing a settlement.

The unprecedented claim is just the latest twist in a slowly unfolding whodunit that began more than nine months ago when poker players posted comments about suspicious play on

UltimateBet in an Internet poker forum. It's a mystery steeped in international intrigue and featuring a cast of characters that includes some of the world's most famous poker players, the former grand chief of a Canadian Mohawk community and executives of a secretive Oregon Internet security company.

The company that claims ownership of UltimateBet — Tokwiro Enterprises, headquartered in the Kahnawake Mohawk Territory in southern Canada — has issued some refunds and promised to repay any players who lost money once an outside investigation is completed. But many players who haven't received credits remain fearful they will never see a dime.

'Who's going to make them pay?'

"I know I'm not going to get my money," one dejected player, Daniel Cardoso of Utah, told msnbc.com. Cardoso believes he lost several thousand dollars through the alleged scheme but has not been able to obtain records from UltimateBet to verify that. "I know there are thousands of people who aren't going to get reimbursed."

Adding to the sense of mistrust is the fact that Tokwiro Enterprises apparently is owned by Joseph Norton, the former grand chief of the Kahnawake Mohawks, who helped establish the territory as North America's only bastion of Internet gambling.

"Who's going to make them pay?" asked Nat Arem, a professional [poker player and blogger](#) who helped unravel the alleged cheating rings at UltimateBet and Absolute Poker, referring to Excapsa. "What court is this going to end up in?"

Though most forms of Internet gambling, including online poker, are considered illegal by the U.S. government, millions of players routinely risk their cash on the virtual version of the popular card game, ignoring the fact that many of the Web sites are unregulated or loosely regulated and are based in jurisdictions where a player would likely have no legal recourse in the event of wrongdoing.

UltimateBet is a popular destination for these players, largely because of its television advertisements featuring famous players such as Phil Hellmuth, the winningest player in the history of the World Series of Poker, with 11 victories, and Annie Duke, arguably the best-known female poker pro. UltimateBet and other poker sites are able to advertise on television by promoting free "play for fun" sites instead of their cash games, which are just a few clicks away.

As was the case in the Absolute Poker scandal last year, the UltimateBet case was uncovered by the players rather than Tokwiro Enterprises or the Kahnawake Gaming Commission, the agency

charged with regulating online gambling from the Kahnawake territory, just south of Montreal across the St. Lawrence River.

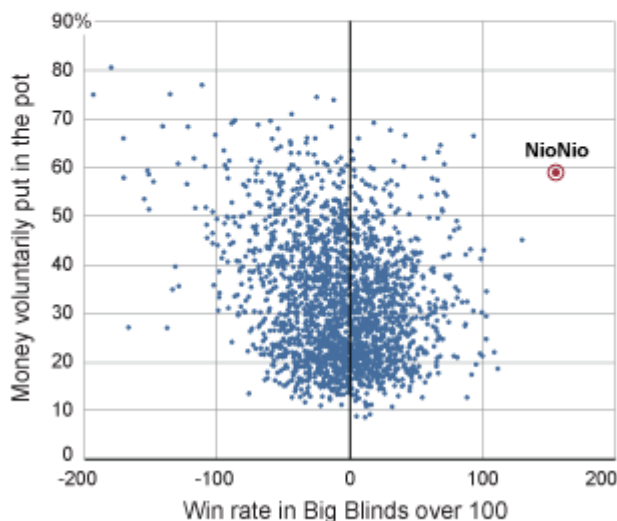
Players aired suspicions in January

Suspicious players wrote in a Jan. 8 post on the Two Plus Two online poker forum that they had noticed that certain players in the highest-stakes games on UltimateBet were playing extremely unusual strategies and winning at an unbelievably high rate. ([Click here](#) to read a synopsis of the early posts.)

Two of the players — known by the screen names “trambopoline” and “dlpnyc21” — reviewed their hand histories and found that one account in particular, using the screen name “NioNio,” was making a killing, having banked an astonishing \$300,000 profit in just 3,000 hands. They turned to the MyPokerIntel.com Web site, which tracks high-stakes online tournaments, where many thousands of dollars can change hands, and found that NioNio had won in 13 of the 14 sessions recorded there, cashing out with approximately \$135,000.

Beyond belief

Chart prepared by Australian poker player and mathematician Michael Josem compares NioNio's winning percentage, the red dot upper right, to those of 870 “normal” accounts with at least 2,500 recorded hands. Josem said the data show that the chances of NioNio legitimately winning at such a rate “is less than his chances of winning a one-in-a-million lottery on four consecutive days.”



Source: Michael Josem

MSNBC

When that information was posted, Michael Josem, a mathematics-minded Australian poker player, charted NioNio's results in comparison to the results of 870 “normal” accounts with at least 2,500 hands recorded by poker-tracking software. The result, seen at left, showed that NioNio's win rate was 10 standard deviations above the mean, or less likely than “winning a one-in-a-million lottery on four consecutive days,” Josem said.

As the players continued to dig, they concluded that NioNio was at the center of a web of accounts that were able to change user names with ease, making it harder for victims to detect the cheating.

“They would get a regular player, one of the accounts would play them, then that account would leave and the other account

would come play them,” said one poker player who helped uncover the cheating, speaking on

condition of anonymity. "... They were careful to only play each player a few times, and then they went and created new account names."

Tokwiro said it was alerted to the accusations by UltimateBet players on Jan. 12 and immediately launched its own investigation.

'Unauthorized software code'

Tokwiro issued an "interim statement" on March 6 stating that it had determined that NioNio's results were indeed "abnormal." Then, on May 29 — nearly five months after the first poker forum post —the company acknowledged that NioNio and other player accounts "did in fact have an unfair advantage" obtained through "unauthorized software code that allowed the perpetrators to obtain hole card information during live play."

The company blamed the intrusion on "individuals ... (who) worked for the previous ownership of UltimateBet prior to the sale of the business to Tokwiro in October 2006."

Tokwiro's chief operating officer, Paul Leggett, in a Two Plus Two Poker podcast on June 2, said that the cheaters were able to evade UltimateBet's anti-fraud protections by "setting up these accounts so they appeared as VIP poker professionals. Because these players had this kind of status, they were able to get fast withdrawals and basically bypass our security." He also said that the company was "pursuing our options, both criminal and civil."

(Tokwiro spokeswoman Anna Molley told msnbc.com that Leggett had stopped giving interviews at the request of the Kahnawake Gaming Commission pending completion of an independent investigation.)

The explanation is similar to that given by Tokwiro after the Absolute Poker cheating scandal, which it blamed on a "high-ranking, trusted consultant ... whose position gave him extraordinary access to certain security systems." The alleged cheater in that case has never been publicly identified because Tokwiro, in a private settlement, agreed to withhold his or her identity. The site did repay the players who lost money, however.

By blaming employees of a prior owner, Tokwiro might have resolved the mystery had UltimateBet not been the rubber ball in an international shell game.

A murky corporate pedigree

Published accounts indicate that the poker software used by UltimateBet was developed in the late 1990s by ieLogic, a Portland, Ore., company. After that, things quickly become murky.

An undated and unbylined article on the TotalGambler.com Web site, titled "[The history of online poker](#)," alleges that ieLogic founders Greg Pierson and Jon Karl created the UltimateBet site at the end of 2000, along with "some secretive high stakes poker players." The article did not identify the players, but it stated that Russ Hamilton, winner of the 1994 World Series of Poker Main Event and a well-known Las Vegas gambler, was employed as a consultant and began recruiting some big-name poker players, including Hellmuth, to promote the site.

An UltimateBet spokeswoman boasted about the presence of the poker pros in a May 2001 interview with winneronline.com, saying, "UltimateBet is lucky to have so many world poker champions choose to be a part of our project. ... (They) have helped us develop a site that is true to the game."

Barry Greenstein, a respected professional poker player, has publicly stated that some of the players involved in the development of the site were given an ownership interest as compensation. "They are all very concerned that with these bad things happening, they're not going to get their money," he said in an interview on Poker Road Radio on July 16.

IeLogic never acknowledged any ownership interest in UltimateBet, saying only that it licensed its "multiplayer online games" software to the site. Then the company sought to disassociate itself from the Internet gambling business entirely by selling its gambling software to a newly incorporated Canadian company, Excapsa Software Inc., in the spring of 2004.

Pierson and Karl held onto the other portion of ieLogic's business — "a system for predicting online fraud" — and changed the name of their company to Iovation, according to a January 2005 article in the Portland Business Journal, which first reported the sale of the gambling software.

But it is unclear to whom —and even whether — the software business was sold.

Excapsa Software, incorporated in April 2004 in British Columbia, eventually went public, making an initial stock offering on the London Stock Exchange's Alternate Investment Market in Feb. 16, 2006, that gave it a market capitalization of approximately \$393 million. Documents filed in connection with the offering listed nearly 40 percent of the shares as being held by insiders — CEO Jim Ryan and five irrevocable trusts that provided no clue as to the identity of the beneficiaries. (A spokesman for Ryan, who is now CEO of Party Gaming, operator of the Party Poker Web site, declined msnbc.com's request for an interview, saying questions should be directed to Excapsa.)

In an earnings announcement on Aug. 16, 2006, Excapsa stated that it had a 20-year license agreement with UltimateBet's owner, which it identified as eWorld Holdings Ltd. of Antigua.

Lines not clearly drawn

But the lines between ieLogic, Iovation, Excapsa and eWorld Holdings were not always clearly drawn.

When UltimateBet issued a news release on July 25, 2002, announcing a joint venture with another poker site, it for the first time identified eWorld Holdings as the owner of the site and listed Jon Karl, co-founder of ieLogic, as the person to contact for further information.

IeLogic also was the first company to register the UltimateBet trademark with the U.S. Patent Office in June 2000. A little more than a year later, the company abandoned the mark and it was re-registered by eWorld Holdings.

And Melissa Gaddis, identified as the public relations manager at ieLogic in a [May 2001 article](#) on winneronline.com, also is identified in papers filed in connection with Excapsa's liquidation proceedings in Toronto as a "director of Excapsa since November 2006" ... and a "beneficial shareholder."

IeLogic co-founders Pierson and Karl, and other officials at Iovation, did not respond to msnbc.com's repeated phone calls seeking comment and refused to meet with a reporter who visited the company's Portland headquarters. Gaddis did not return a phone call to her home.

Excapsa's run as a public company was short-lived, as it sold all its assets to Blast-Off Ltd., a privately owned Excapsa licensee based in Malta, on Oct. 12, 2006, and was delisted from the AIM exchange. Blast-Off Ltd., had previously been listed in filings as an Excapsa license holder for Elimination Blackjack, a tournament version of the popular card game invented by Hamilton, the ieLogic consultant.

U.S. legislation prompted sale

The sudden sale of Excapsa's assets for \$130 million, with \$120 million deferred, was prompted by President Bush's looming signature of the so-called Safe Port Act, which contained a provision barring U.S. banks and other financial institutions from doing business with Internet gambling operators. That effectively put to rest the argument that companies could legally provide Internet gambling to Americans because federal law on the matter was ambiguous, and heightened the legal risks faced by owners of gambling Web sites.

Nearly a year later, Tokwiro claimed ownership of both Absolute Poker and UltimateBet. It later said it had acquired UltimateBet in October 2006 — the month Excapsa announced the sale of its gambling software to Blast-Off Ltd. — but it has never explained how or under what terms it had acquired the site.

Krakower, the court-appointed liquidator overseeing Excapsa's bid to cease to exist as a corporate entity, said that Blast-Off and Tokwiro "are somewhat one in the same," but added, "Blast-Off ... that's the key name."

The tangled corporate trail has persuaded some players that Tokwiro is a false front created to obscure the true ownership of both UltimateBet and Absolute Poker.

"(Norton) may be the plurality owner, he may be the majority owner, but there's no way he owns 100 percent," Arem said of the former Kahnawake Mohawk grand chief, who did not respond to requests for an interview.

The ownership question could be cleared up at the conclusion of an outside investigation of the UltimateBet cheating ordered by the Kahnawake Gaming Commission. On July 27, the KGC announced it had asked Frank Catania, a former New Jersey state gaming regulator, to conduct "a full forensic audit/investigation" of Tokwiro to ensure that UltimateBet's games are fair and anyone connected to the alleged cheating ring is removed from the company.

'The first significant incident'

"We are all well aware of the criticism that this has drawn and are doing our best to update and implement modifications to ensure that this never happens again," said Chuck Barnett, a spokesman for the gaming commission, which has licensed more than 470 gambling Web sites operated by 55 different operators. "... In the KGC's past decade of i-gaming regulatory enforcement, this is without doubt, the first significant incident."

Some players questioned the selection of Catania, noting that he had helped the KGC develop its gaming regulations and could hardly be considered an independent investigator. But in an interview with msnbc.com he insisted he would pull no punches in getting to the bottom of the cheating allegations as well as the ownership issue — regardless of Norton's stature in the Kahnawake Mohawk community.

"We'll go in and look at reports from (KGC auditor) Gaming Associates, we'll look at employees, including ownership, look at the software ... whether the games are fair and honest and what protections have been put in place," he said. "It's going to be a complete examination of the

company and no one will get any special preferential treatment because of a past position with the tribe or anything like that.”

While the official investigation grinds on, the Internet sleuths have settled on a leading suspect: A professional poker player who was associated with ieLogic in the early days.

Their version of a “smoking gun” came from what they say is information on several of the cheating accounts leaked by company insiders. Arem discovered that one of the accounts, which used the screen name “sleepless,” was established using the address of a Las Vegas residence formerly owned by the poker player.

Poker pros visit prime suspect

After Arem published that information, poker pro Greenstein posted on Two Plus Two that he had spoken with other players who confirmed that they had received fund transfers from the player via the “sleepless” account.

Greenstein and his stepson, Joe Sebok, also a poker pro, said the player agreed to tell his side of the story on the [Poker Road](#) radio show on July 16, but later backed out on the advice of his attorney.

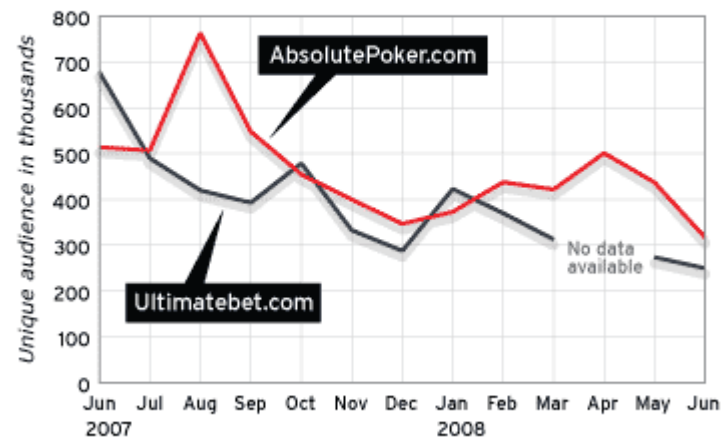
Instead they arranged to speak to the player in his lawyer’s presence — the only people believed to have done so. (Despite numerous attempts through multiple channels, msnbc.com was not able to contact the player.)

While the player told the men he couldn’t answer many of their questions, they said he maintained his innocence and predicted that his name will be cleared when the investigation is complete.

Both Greenstein and Sebok, who as poker players put a lot of credence in gut instincts, said they arrived at the interview all but persuaded of the man’s guilt, but left feeling less certain.

Downward spiral

Traffic at AbsolutePoker.com and UltimateBet.com has declined in the wake of cheating scandals at both poker sites.



SOURCE: Nielsen Online

msnbc.com

"We expected him to be dodgy, but he was just very comfortable discussing the situation as much as he could legally ... that once everything did come out, he would not be among the people incriminated," Sebok told msnbc.com.

Greenstein applied his mathematical perspective to the situation in a posting on Two Plus Two forum: "Before I talked to (him), I thought it was more than 95 percent likely that he was involved in cheating. ... Now I think it's more than 99 percent that he knows people who cheated well enough to transfer money with them, but I think it's less than 50 percent that he actually cheated or knew that the people were cheating at the time."

In an e-mail interview with msnbc.com, Greenstein said he believes it is likely that the KGC's investigation will confirm that the crime was carried out by an employee or employees of the former ownership of the site — whether it be ieLogic, Excapsa or eWorld Holdings —not the professional poker players who lent their expertise to the site's developers.

'A bunch of kids ... who jump to conclusions'

"There is no evidence to the contrary, except for some circumstantial evidence against (him) and a bunch of kids on Two Plus Two who jump to conclusions every time they are given a name," he said. "... I'm not saying these people (the poker pros) are clean. I don't know for sure. But just because someone's name is associated with a company where there was cheating, it doesn't mean that the person was involved."

Arem, however, said he remains unconvinced by the player's protestations of innocence. But he said he's open to the possibility that the circumstantial evidence leaked by the company insider could have been an attempt to shift the blame.

"(The player) has said that within three months all the information will come out and he'll be cleared," he said. "... In my mind, it's a tiny chance, but if I was the one being accused, I'd want someone to give me the benefit of the doubt."