

Tech industry zeroing in on gambling

By David Streitfeld, New York Times

SAN FRANCISCO – Look out Las Vegas, here comes FarmVille.

Silicon Valley is betting that online gambling is its next billion-dollar business, with developers across the industry turning casual games into occasions for adults to wager.

At the moment these games are aimed overseas, where attitudes toward gambling are more relaxed and online betting is generally legal, and extremely lucrative. But game companies, from small teams to Facebook and Zynga, have their eye on the ultimate prize: the rich American market, where most types of real-money online wagers have been cleared by the Justice Department.



Two states, Nevada and Delaware, are already laying the groundwork for virtual gambling. Within months they will most likely be joined by New Jersey.

Bills have also been introduced in Mississippi, Iowa, California and other states, driven by the realization that online gambling could bring in streams of tax revenue. In Iowa alone, online gambling proponents estimated that 150,000 residents were playing poker illegally.

Legislative progress, though, is slow. Opponents include an influential casino industry wary of competition and the traditional antigambling factions, who oppose it on moral grounds.

Silicon Valley is hardly discouraged. Companies here believe that online gambling will soon become as simple as buying an e-book or streaming a movie, and that the convenience of being able to bet from your couch, surrounded by virtual friends, will offset the lack of glittering ambience found in a real-world casino. Think you can get a field of corn in FarmVille, the popular Facebook game, to grow faster than your brother-in-law's? Five bucks says you cannot.

"Gambling in the U.S. is controlled by a few land-based casinos and some powerful Indian casinos," said Chris Griffin, chief executive of Betable, a London gambling start-up that handles the gaming licenses and betting mechanics of the business for developers. "What potentially becomes an interesting counterweight is all of a sudden thousands of developers in Silicon Valley making money overseas and wanting to turn their efforts inward and make money in the U.S."

Betable has set up shop in San Francisco, where 15 studios are now using its back-end platform. "This is the next evolution in games, and kind of ground zero for the developer community," Griffin said.

Overseas, online betting is generating an estimated \$32 billion in annual revenue – nearly the size of the United States casino market. Juniper Research estimates that betting on mobile devices alone will be a \$100 billion worldwide industry by 2017.

"Everyone is really anticipating this becoming a huge business," said Chris DeWolfe, a co-founder of the pioneering social site Myspace, who is throwing his energies into a gaming studio with a gambling component backed by, among others, the personal investment funds of Jeff Bezos, Amazon's founder, and Eric E. Schmidt, Google's executive chairman.

As companies eagerly wait for the American market to open up, they are introducing betting games in Britain, where Apple has

tweaked the iPhone software to accommodate them. Facebook began allowing online gambling for British users last summer with Jackpotjoy, a bingo site; deals with other developers followed in December and this month.

Zynga, the company that developed FarmVille, Mafia Wars, Words With Friends and many other popular casual games, is advertising the imminent release of its first betting games in Britain. "All your favorite Zynga game characters will be there, except this time they'll have real money prizes to offer you," an ad says. "Play online casino games for pennies and live the dream!"

DeWolfe's studio, SGN, is also on the verge of starting its first real-money games in Britain. "Those companies that have a critical mass of users that are interested in playing real-money games are going to be incredibly valuable," he said.

Mark Pincus, the chief executive of Zynga, said the company was just following the market. "There is no question there is great interest from all kinds of people in games of chance, whether it is for real money or virtual rewards," he said. Zynga, which has missed revenue expectations in the last year, is making gambling a centerpiece of its new strategy. It has just applied to Nevada for a gambling license.

Casual gaming first blossomed on Facebook's Web site, where players could readily corral friends into their games. It is now being rethought for mobile devices, so people can play in brief snippets as they wait for a bus or a sandwich.

Some games mimic the slots and poker found in casinos; others emphasize considerably more creativity. The vast majority of casual game players play at no charge. A small number buy virtual objects in the game to speed their play or increase their status.

Tech executives expect an equally small number to play for real money but believe they will bet heavily, making them much

more valuable to the gaming companies. By Betable's estimate, the lifetime value of a casual player is \$2 versus \$1,800 for a real-money player.

Big Fish Studios, a Seattle developer, introduced Big Fish Casino, an iPhone app, in Britain last fall. "We started with a one-pence slot machine," little more than a penny, said Paul Thelen, Big Fish's founder and chief executive. "Now it is up to a maximum of about \$50 a bet." Average revenue per player is exceeding \$20 a day, whereas in virtual currency it was 30 or 40 cents.

"Like in Vegas, some people get lucky and some don't," he added.

The powerful Las Vegas and Indian casinos have mixed attitudes toward online gambling. Caesars Entertainment in 2011 acquired the Israeli start-up Playtika, developer of the popular Facebook game Slotomania, for about \$180 million, offering it a springboard into the digital world. But Sheldon Adelson, the Las Vegas magnate and major Republican Party donor, is opposed to online betting because he thinks children will end up gambling.

In New Jersey, Gov. Chris Christie has had different qualms. He has vetoed two online gambling bills, the second earlier this month. One concern: the state's take, a proposed 10 percent tax, was not large enough.

The measure, which is likely to be refined and successfully resubmitted in the next few months, followed the state Constitution, which mandates that Atlantic City is the only spot in the state where gambling can take place. And so only the casinos were allowed to offer online games, although they could partner with tech companies; the actual computers allowing the gambling would have to be housed in the casinos. And of course players had to be over 21 and physically located in New Jersey.

Meeting those last two requirements seems a tall order to Doug Creutz, an analyst at Cowen & Company who follows online gambling closely. "The Internet isn't bound geographically," he said. "There are other problems too, like preventing money laundering. Online gambling is going to be a complex issue that will take a while to sort out."

In the meantime, though, he notes that games themselves are sometimes changing to incorporate elements akin to gambling. Diablo III, the latest version of the popular role-playing series from Blizzard, was released last year with an in-game auction house where players could buy and sell loot that they had found. If they chose, they could literally take the profits out of the game.

Since the loot was randomly generated, like the numbers on a slot machine, Blizzard had to remove the auction house game from the South Korean version of the game to satisfy the country's strict antigambling provisions.

Cesar and Edgar Miranda are two young developers who have won hackathons, where the goal is to build a game in a weekend. The brothers, who rent rooms from their parents in San Jose, have spent the last few weeks refining their game, Claw Crane.

It is a simple variation of the grabbing game found in amusement arcades for decades: successfully secure a toy from a pile and you win. If Apple approves, the game, offering cash prizes, will be available in Britain later this month. A virtual money version will be available in the United States.

"We saw the opportunity here," said Cesar Miranda, 24. "Anyone can jump in and try and grab a piece of this market while it is still fresh. There's a low entry to failure."

Neither he nor his brother, born in Mexico and raised in California, have even been near Britain. "I think the closest I've gotten is Las Vegas," Cesar Miranda said.