

## E-Commerce

### Intrade's Latest Gamble: Sports

► After running afoul of the CFTC, it steps back into the game

► "Sports are always going to be the best laboratory"

**Intrade** was riding high on Election Day 2012, as its user base called the presidential vote in every state but Florida. Less than three weeks later, the popular online prediction market fell off a cliff. The U.S. Commodity Futures Trading Commission (CFTC) sued Intrade, claiming its exchange illegally enabled speculation in gold, currencies, and the probabilities of acts of war. Customers vanished, and within months Intrade could no longer cover its bets. The site shut down in March 2013.

A year later, co-founder Ron Bernstein has put his shingle back up, but the lettering is different. In lieu of the political betting that made Intrade famous, he has restructured around a website called Tradesports.com that lets speculators buy and sell positions on sporting events. Although it's separate from the dormant Intrade, Tradesports is built on the old site's technology and its staff includes several Intrade veterans. (Bernstein says the Intrade trading platform may return at some point.) For now, he's running a private Tradesports test period, begun on April 7, and plans to formally launch the site soon. "Sports are always going to be the best laboratory for prediction

markets," Bernstein says. "All those things now are just recorded and data-mined and discussed."

As with Intrade, Tradesports sells shares linked to event outcomes that can be sold at a profit or loss as they fluctuate during real-world games. It takes advantage of a 2006 U.S. law designed to exempt fantasy sports leagues from prohibitions on gambling. Fantasy sites are considered games of skill that users can wager on as long as the bets are more complex than a team's win or loss. Tradesports customers can't bet on whether the San Antonio Spurs will beat the Minnesota Timberwolves, but they can buy shares in a Spurs victory tied to a wager on how many rebounds Tim Duncan will pull down. Each outcome has a point value, and the bettor with the highest point total wins the game's pot, minus the site's per-player cut.

Tradesports faces competition from existing fantasy sports sites, which pitch their markets as places to find the thrills of gambling without the legal risks. The leading site, FanDuel, has raised \$18 million in venture capital and says it became profitable late last year. It expects to pay out \$400 million in prizes in 2014. Another competitor, DraftKings, has raised \$35 million and says it will pay out more than \$200 million this year. Although each site claims an advantage based on Web or contest design, the main asset is a large existing audience.

Intrade's early and prominent investors, such as Wall Street legend Paul Tudor Jones and News Corp.'s Lachlan Murdoch, are long gone. But Bernstein raised new funding last year and says he has enough capital to run the site for at least 18 months. He's trying to stock the Tradesports pond partly through e-mail blasts to Intrade's 200,000 or so past customers. He's also hoping the new site will, like Intrade, attract non-gamblers; at its peak, the old site had an audience five times its trading pool. Many visitors came to Intrade simply as a way to track likely presidential primary results or stock market anxieties, says Dave Rothschild, an economist at Microsoft Research.

Tradesports marks a return to Intrade's roots. A stock market for sports was the original idea when Bernstein joined Intrade's group of founders in 1999. To help design the exchange, he moved with them to gambling-friendly Ireland and served ►

◀ as chief executive officer when Intrade went live in 2001. Bernstein left the company in 2003 to return to New Jersey, where he made a living trading gold and sugar futures.

Under CEO John Delaney, Intrade pushed further into legal gray areas. In 2005 the company ran afoul of the CFTC, which complained that it was essentially running an unregulated commodity futures market. Intrade paid a \$150,000 fine and agreed to stop offering certain kinds of bets, a relatively light punishment that the government said reflected the company's cooperative attitude. The CFTC's 2012 complaint remains pending. Intrade has denied the government's allegations; the commission didn't respond to a request for comment.

Delaney died while climbing Mount Everest in 2011. A report Intrade's outside auditors prepared for the Irish government raised concerns about payments the company made to Delaney's personal accounts. The situation prompted Bernstein to return to Intrade. Confidentiality agreements limit what he can discuss, but he says "significant monies were returned by the Delaney family to the company." He says the company's problems are behind it.

Legal questions notwithstanding, the prospects for a new daily fantasy sports company don't necessarily look bright. Smaller competitors are folding while incumbents attract more players and investment capital. Nigel Eccles, the co-founder of FanDuel, says sites such as his and DraftKings have an almost insurmountable head start. "We saw the early stage, we saw the explosion, and now we're seeing the consolidation," he says.

At the same time, the leading sports sites were largely founded by and for poker industry veterans. They're now ratcheting up marketing efforts to appeal to more casual fantasy players. Bernstein says Tradesports has the clearest path toward building—or in his case, rebuilding—a general-interest

betting site that can take action on everything from midterm elections to the Oscars. "I like sports, love sports," he says. "But I think the opportunities are there for this to be about anything."  
—Joshua Brustein

**The bottom line** With Tradesports, Intrade is wagering it can handle entrenched sports-focused rivals and the CFTC.