

COMMONWEALTH OF KENTUCKY
PUBLIC PROTECTION CABINET
DEPARTMENT OF FINANCIAL INSTITUTIONS
ADMINISTRATIVE ACTION NO. 2022-AH-0023



DEPARTMENT OF FINANCIAL INSTITUTIONS

COMPLAINANT

v.

SLOTIE NFT

RESPONDENT

EMERGENCY ORDER TO CEASE AND DESIST

The Department of Financial Institutions (hereinafter referenced as the “Department”), pursuant to Kentucky Revised Statute (KRS) 292.470, KRS 292.500, and 808 Kentucky Administrative Regulation (KAR) 10:225, hereby enters this **Emergency Order to Cease and Desist** against Slotie NFT (hereinafter referenced as “Respondent” or “Slotie”). In support thereof, the Department states as follows:

PARTIES

1. The Department of Financial Institutions is responsible for administering the provisions of KRS Chapter 292, the Securities Act of Kentucky (“the Act”), as well as any applicable rules, regulations and orders entered pursuant to the Act.

2. Slotie is an entity in the business of developing an online casino network.

3. Due to the nature of Slotie’s online business model, Respondent does not have a readily ascertainable principal office or agent for service of process. Upon information and belief, the following address is the last known address by which the Department may serve Slotie:

a. 38 Vazha Pshavela Ave., Tbilisi 0177, Georgia. This is the physical address that GoDaddy.com, LLC provided to the Alabama Securities Commission when that state’s regulators conducted its investigation, providing the same to the Department.

4. Online sources purport Slotie’s management as certain individuals but the Department was unable to find sufficient information to verify these claims. According to an article by The Coin Republic, <https://www.thecoinrepublic.com/2022/04/13/slotie-nft-will-it-be-able-to-disrupt-the-gambling-industry/>, Slotie’s management allegedly consists of the following people: the Product Owner is Tas Nicolaou; the CMO is John Hrzic; the Head of Communication is Brianna Quintero; the Software Engineer is Nick Bunia; the Art Director is Lukas Tiik; digital marketing is performed by Nelly Cyprichova; game design is performed by David Tonson; and the smart contract is handled by Marc Gibson. The article also states that many of Slotie’s team members appear to be located in Malta and Quintero appears to be based in the United States.

STATEMENT OF FACTS

5. On or about September 29, 2022, the Department began investigating Slotie’s activities, determining the facts and circumstances described herein.

6. On or about October 25, 2021, Slotie began operating in the country of Georgia. Slotie retained GoDaddy.com, LLC as a webhost and published its website, <https://www.slotie.com/>. Slotie also began using various social media platforms to promote its product. Slotie has since expanded its websites to include such alternative web addresses as watts.slotie.com, junior.slotie.com, and breed.slotie.com.

7. On October 27, 2021, Slotie first posted on Discord from a server hosted as “Slotie NFT”. The Discord server ID is 902918779770638366 and is administered by User ID 721649596383887450.

8. On November 1, 2021, Slotie first posted on Twitter from the account handle “@SlotieNFT”.

9. On November 2, 2021, Slotie first posted on Instagram from the account handle “slotie_nft”.

10. Slotie is purportedly developing NFTs that will grant holders access to Slotie’s DeFi gambling applications in the Sandbox metaverse along with profit-sharing in the company’s business activities. Slotie plans to raise capital from NFT sales for the development of a “SlotieVerse” metaverse casino.

11. Decentralized finance (“DeFi”) is a method of financial transaction that attempts to utilize peer-to-peer networks to eliminate traditional intermediaries, such as banks and credit card networks. When paired with blockchain technology, DeFi relies on software recording and aggregating transaction data to a database that is distributed among many computers in various locations. This transaction ledger is then updated by a consensus mechanism, typically employing certain users to engage in proof-of-work or proof-of-stake models of encrypted data verification. Businesses utilizing DeFi networks seemingly lack a centralized location of business.

12. The Sandbox metaverse is a virtual world focused on social connections, interactivity, commerce, entertainment, and business. Metaverses typically incorporate technological innovations such as blockchain, augmented reality (“AR”), virtual reality (“VR”), digital assets, and non-fungible tokens (“NFTs”).

13. NFTs are tokens purportedly representing ownership of a unique item, such as a digital work of art, and are secured by the Ethereum blockchain, a decentralized peer-to-peer network platform. The Ethereum blockchain can run “smart contracts”, which are programs that automatically execute a specific transaction if certain conditions are met.

14. Slotie plans to fund the development and administration of its metaverse slot machines through the sale of NFTs to the public.

15. Slotie's NFTs are 10,000 distinct images generated from individual traits to ensure each NFT is unique in at least one aspect. The NFTs depict a humanoid robot with a slot machine for a head and the traits include the background color, color of the figure, and costume design elements that typically fit into a theme, such as an outfit inspired by pop culture depictions of animals, Egyptian pharaohs, Greek mythological creatures, Irish leprechauns, etc. Slotie has selected certain traits to be more rarely distributed than others and has claimed that rarer NFTs will result in higher earning potential from Slotie's distribution of rewards. There does not appear to be conclusive evidence of how much additional earning potential is tied to certain traits or if Slotie is rewarding NFT owners in accordance with those guidelines.

16. Slotie claimed that its NFTs do not have a value based on superficial qualities, like other NFTs. However, consumers that initially purchased the NFTs were unaware of the traits of the NFT until the NFT was minted. Consequentially, NFT purchasers did not have adequate information to assess the worth of the Slotie NFT relative to other Slotie NFTs until the NFT was minted. Once the NFTs were minted, NFT holders and later purchasers on the secondary market lacked adequate information to determine the precise return accorded to particular NFTs despite third-party applications providing information on the rarity of certain traits.

17. Slotie also utilizes its own cryptocurrency, WATT. On its website, Slotie has described WATTs as "a token which acts like the energy in the Slotie's world. WATTs are generated on a daily basis. Every Slotie owner gets 10 WATTs tokens [sic] daily."

18. Slotie also offers secondary NFTs known as "Slotie Juniors" (Respondent has also referenced the product as "Junior Slotie"), acquired through a process that Slotie refers to as "breeding", requiring 1800 WATT tokens and 2 Sloties in order to obtain a Slotie Junior. At the time of this Order, all Slotie Juniors have been "bred" and are now only available by secondary

market means. Slotie has described the Slotie Junior as a proof of ownership on the Ethereum blockchain and that traits of a particular Slotie Junior NFT determine benefits, such as the amount of Earned Holder Reward, rackback percentages, and free spins in SlotieVerse gambling mechanisms.

19. Unlike the standard Slotie NFT, the Slotie Junior is target to ownership of digital land in the Sandbox metaverse as part of Slotie’s particular DAO (“Decentralized Autonomous Organization”), which governs the location of Slotie’s business in that metaverse by using their NFTs like voting shares. Slotie alleges that Slotie Junior holders will receive a plot of metaverse land in the “Slotie Junior District” of the Sandbox metaverse, controlled by holders of the NFT. Slotie further alleges that holders in the community have authority to decide how to use the land and control 100% of the district’s income. This metaverse land is where Slotie purports to be developing its casino and games, using Slotie NFTs to fund the project and appears to be synonymous with the “SlotieVerse”, which is a metaverse location whereby patrons use digital avatars to experience virtual casinos, malls clubs, and entertainment centers.

20. Slotie has claimed on its website that “Owning a Junior Slotie literally doubles the profit for the Slotie holders.”

21. Slotie uses its website and social media platforms to solicit its NFTs as an opportunity to gain a share in the ownership of revenue generated by Slotie when consumers play its metaverse slot machines and also allow holders of the NFTs to participate in “slotteries” that include lotteries and contests awarding cash, NFTs, and the earning of Slotie’s WATT cryptocurrency.

22. Slotie has engaged in its slottery activity on its Discord server and Slotie has conducted community outreach on Reddit.

23. Slotie engaged Ruby Play to develop an online slots game (the “Ruby Slots Game”), which Slotie purports will be distributed to and licensed by Ruby Play’s partner online casinos, and through which Slotie NFT holders will earn a share of revenues. Ruby Play’s website only makes a limited statement about this arrangement, advising, “Ruby Play is an iGaming development studio that specializes in the design and creation of the most entertaining and engaging slot games, as well as value-add tools for gaming operators.”

24. On or about November 2021, Bitcoinist published an article on its website that stated “Holding Slotie can be thought of as a partnership agreement between holders and casinos....Casinos pay a commission of 12% of slot machine revenue for executing and distributing high-quality gaming solutions. Monthly, Slotie distributes 50% of the revenue generated by NFT-based slot machines to Slotie owners.” The Bitcoinist article further stated that

In the Slotie ecosystem, Passive Income serves a specific purpose. It’s not just a bold promise; it’s a genuine incentive for Slotie owners to keep their NFTs in the long run. In addition, holding Sloties is critical to the business model we’re developing with our partner casinos.

Slotie later provided a link to this article on its own website.

25. On November 23, 2021, Coinspeaker published an article on its website that attributes its source to Slotie. The article stated that “Slotie appears to be committed to its plan to empower its community with a decentralized and equitable profit distribution plan by introducing a Casino business model that is transparent and equitable to gamblers. The users who stake their NFTs will receive 65 percent of the guaranteed profits generated by Slot games at the partner casinos. Slotie’s new Casino business model improves on the traditional Casino business model.” Slotie later provided a link to this article on its own website.

26. On November 24, 2021, Elia Software, Slotie’s software partner, issued a press release in Bloomberg, which stated

Slotie's slot machines enable slotie owners to become shareholders in the casino's house edge and earn incredible rewards.” Furthermore, the article stated “Slotie's NFTs are one-of-a-kind utility NFTs that provide holders with numerous benefits such as the ability to earn passive income, Revenue share from the casinos' house edge by staking NFTs and rakebacks of up to 20%.

27. Also on November 24, 2021, Slotie’s website linked to a press release that appeared on NASDAQ’s website, which stated:

Slotie's slot machines enable slotie owners to become shareholders in the casino's house edge and earn incredible rewards.” The press release also states “Slotie's NFTs are one-of-a-kind utility NFTs that provide holders with numerous benefits such as the ability to earn passive income, Revenue share from the casinos' house edge by staking NFTs and rakebacks of up to 20%.

28. On December 7, 2021, Slotie executed an Ethereum smart contract to mint and publish its Slotie NFTs.

29. On February 9, 2022, Slotie executed an Ethereum smart contract to mint and publish its Slotie Junior NFTs.

30. On February 9, 2022, Slotie tweeted from @SlotieNFT, “Slotie Junior holders will OWN the SlotieVerse marketplace and earn EHR (exclusive holder rewards) from the transactions that take place in SlotieVerse!”

31. On March 25, 2022, Slotie tweeted from @SlotieNFT, “Be more than just a spectator, be the HOUSE!”

32. Slotie’s NFT offerings and statements about its business are freely available online and accessible to citizens of the Commonwealth of Kentucky.

33. A person claiming to be an adviser to Slotie stated that Slotie has attempted to circumvent securities laws and regulation by rephrasing its prior statements about the passive income

generated by its NFTs, transitioning to more ambiguous statements about Exclusive Holder Rewards.

34. The Department discovered that Slotie has also altered certain aspects of its business around the time period that the Department pursued other companies offering NFTs as securities in the metaverse. Slotie appears to have changed the amount of WATTs offered and frequency of the distribution, the amount of rewards accorded to NFT holders, and what privileges holders of Slotie Juniors are able to exercise.

35. As of the date of this Order, Slotie has never been registered with the Department and has never sought registration for itself or its NFTs.

36. As of the date of this Order, Slotie has not provided investors with material information regarding its financials.

STATUTORY AUTHORITY

37. KRS 292.310(15) defines “Person” as:

[A]n individual, a limited liability company, a corporation, a partnership, a limited partnership, an association, a joint-stock company, a trust where the interests of the beneficiaries are evidenced by a security, an unincorporated organization, a government, or a political subdivision of a government[.]

38. KRS 292.310(17) defines “Sale” or “sell” as including:

[E]very contract of sale of, contract to sell, or disposition of, a security or interest in a security for value. “Offer” or “offer to sell” includes every attempt to offer to dispose of, or solicitation of an offer to buy, a security or interest in a security for value. Any security given or delivered with, or as a bonus on account of, any purchase of securities or any other thing is considered to constitute part of the subject of the purchase and to have been offered and sold for value. A purported gift of assessable stock is considered to involve an offer and sale. Every sale or offer of a warrant or right to purchase or subscribe to another security of the same or another issuer, as well as every sale or offer, of a security which gives the holder a present or future right or privilege to convert into another security of the same or another issuer, is considered to include an offer of the other security[.]

39. KRS 292.310(19) defines a “security”, in pertinent part, as:

[A]ny note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, life settlement investment, voting-trust certificate, certificate of deposit for a security; fractional undivided interest in oil, gas, or other mineral rights; or, in general, any interest or instrument commonly known as a “security[.]”

40. KRS 292.320(1) states,

- (1) It is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly:
 - (a) To employ any device, scheme, or artifice to defraud;
 - (b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading; or
 - (c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

41. KRS 292.340 states,

It is unlawful for any person to offer or sell any security in this state, unless the security is registered under this chapter, or the security or transaction is exempt under this chapter, or the security is a covered security.

42. KRS 292.470 states, in pertinent part,

Whenever it appears to the commissioner that any person has engaged or is about to engage in any act or practice constituting a violation of any provision of this chapter or any rule or order under this chapter, the commissioner may in his or her discretion bring any or all of the following remedies:

- (1) Issue a cease and desist order, with or without a prior hearing, appealable to Franklin Circuit Court, against the person or persons engaged in the prohibited activities directing that person or persons to cease and desist from illegal activity. In order to issue an order without prior hearing, the commissioner must find that the delay in issuing a final cease and desist order will cause harm to the public.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

43. Slotie plans on developing metaverse casinos in the multiverse, funding its business venture through the sale of NFTs, which it has already sold.

44. Slotie’s NFTs are “securities” under KRS 292.310(19) because, despite the differences between Slotie NFTs and the formation of Junior Slotie NFTs by acquisition of the former and a

certain amount of WATTs, Slotie's NFTs generally are a scheme to entitle purchasers to part ownership and a pro rata share of profits generated by Slotie's metaverse gambling business simply by holding the NFT after purchase. Furthermore, the value of Slotie NFTs are determined by Slotie itself through superficial scarcity of certain NFT traits and levels of reward attributed to certain NFTs. The value of the NFTs is also subject to cryptocurrency market fluctuations, which Slotie influences by requiring the acquisition of Slotie's WATT cryptocurrency token in order to generate Slotie Juniors, which entitle holders to a stake in the company.

45. The substance of Slotie's NFT offerings constitute investment contracts as described in S.E.C. v. W.J. Howey Co., 328 U.S. 293 (1946).

46. Slotie offers and advertises its NFTs and casino services online throughout various forums, which are accessible to citizens of the Commonwealth of Kentucky. As of the date of this order, Slotie has no measures in place to prevent the offer or sale of securities to citizens of the Commonwealth of Kentucky.

47. Slotie has never been registered with the Department and has never sought registration for its NFTs.

48. Slotie's NFTs do not qualify for an exemption from registration.

49. Based on the facts set forth above, Slotie is offering and/or selling unregistered securities in Kentucky through publicly available channels online, in contravention of KRS 292.340.

50. Slotie has made several statements about the nature of its NFTs that are misleading. These statements include advertising that certain Slotie NFTs will accord higher stake and rewards from the company despite there being no clear indication of what NFTs offer this advantage or how to discern if the reward correctly matches what the NFT entitles the consumer to; Advertising that its NFTs are rare based on something more than superficial qualities yet basing the higher amount of

rewards on the superficial traits that certain NFT bear relative to others; and claiming that owning a Slotie Junior doubles profit without complete information that would temper consumer expectations to the precise meaning of that statement. These statements bear inconsistencies that may mislead and confuse consumers or are otherwise vague due to a lack pertinent information necessary for the investing public to understand their investment.

51. Slotie has not provided material information to consumers about its place of business, management, contact information (other than social media outlets), business repute, qualifications, experience, licensure, and Slotie has not offered information about its NFTs that are material to consumers understanding the method and determination of rewards that are accorded to those that hold the company's NFTs.

52. Slotie has similarly not provided the above information regarding its Discord agent, including any sales-based incentive or compensation paid or earned by the agent for its participation in Slotie's business.

53. Slotie has not disclosed its assets, liabilities, revenue, or other pertinent financial information that would be material to evaluation of its business as a registered entity. Furthermore, Slotie has failed to produce material information regarding the risks associated with operation of its business nor disclosed the financial impact and consequences of its failure to raise sufficient capital.

54. Delay in issuing a final order to cease and desist in this case would cause direct harm to the public due to Slotie's current and foreseeable conduct. Failure to enter an emergency order to cease and desist in this case could result in extensive financial losses to citizens of the Commonwealth with a possibility of consumers having minimal recourse to recoup losses. The emergency nature of this order is essential to protect the interests of the citizens of the

Commonwealth due to Slotie's material misrepresentations, the high volume of assets involved in Respondent's business model, and the volatile nature of NFTs valued in a metaverse by reference to cryptocurrency.

ORDER

Based on the foregoing, IT IS HEREBY ORDERED that:

1. Respondent shall **CEASE AND DESIST** from soliciting or selling any security in Kentucky unless that security is registered with the Department pursuant to KRS 292.340; and
2. Respondent shall **CEASE AND DESIST** from any and all activity which would otherwise violate the Act.

SO ORDERED on this the 20th day of October, 2022.



Designee of Commissioner
Justin M. Burse, Deputy Commissioner

NOTICE TO RESPONDENT

You are hereby notified that you are entitled to request an emergency hearing. If requested, an administrative hearing shall be held within ten (10) days pursuant to the provisions of KRS Chapter 13B.125. Please submit any request for hearing, in writing, to Brandon Adcock, Staff Attorney, Kentucky Department of Financial Institutions, 500 Mero Street 2 SW 19, Frankfort, Kentucky 40601. Alternatively, you may also have the right to the judicial review of this Order in Franklin Circuit Court pursuant to KRS 292.470(1).

CERTIFICATE OF SERVICE

I certify that a true and correct copy of the foregoing Emergency Order to Cease and Desist was sent on this the 20th day of October, 2022 by the method indicated below to the following:

Via certified mail, return receipt requested:

Slotie NFT
38 Vazha Pshavela Ave.
Tbilisi 0177, Georgia
Respondent

Alternative addresses via email:

Beka Begeluri
ngabu08@gmail.com

Via email:

Brandon Adcock, Staff Attorney III
DEPARTMENT OF FINANCIAL INSTITUTIONS
500 Mero Street, 2 SW 19
Frankfort, KY 40601
Counsel for Department of Financial Institutions

Kentucky Department of Financial Institutions

Name: *Alicia Reed*

Title: *Executive Staff Advisor*