

**STATE OF ALABAMA  
ALABAMA SECURITIES COMMISSION**

<b>IN THE MATTER OF:</b>	)	
	)	
<b>Sand Vegas Casino Club</b>	)	<b>ADMINISTRATIVE ORDER</b>
<b>Finn Ruben Warnke</b>	)	
<b>Martin Schwarzberger</b>	)	<b>NO. CD-2022-0008</b>
	)	
<u>                    <b>RESPONDENTS</b></u>	)	

**CEASE AND DESIST ORDER**

The Alabama Securities Commission ("Commission"), having the authority to administer and provide for the enforcement of all provisions of Title 8, Chapter 6, Code of Alabama 1975, the Alabama Securities Act ("Act"), upon due consideration of the subject matter hereof, has determined as follows:

**RESPONDENTS**

1. Sand Vegas Casino Club ("**SAND VEGAS CASINO CLUB**") is being served by (1) registered mail addressed to Respondent Sand Vegas Casino Club at Georgiou Seferis, 11, Majestic Gardens P1 B2, Apartment/Office 105, Tersefanou, 7562, Larnaca, Cyprus, (2) registered mail addressed to Respondent Sand Vegas Casino Club at Riga Fereou Street 47, 6013 Larnaca, Cyprus, and (3) certified mail addressed to Sand Vegas Casino Club c/o Namecheap, Inc., the registrar of the website for Sand Vegas Casino Club, at 4600 East Washington Street, Suite 305, Phoenix, Arizona 85034.

2. Finn Ruben Warnke ("**WARNKE**") is being served by (1) registered mail addressed to Respondent Warnke at Georgiou Seferis, 11, Majestic Gardens P1 B2, Apartment/Office 105, Tersefanou, 7562, Larnaca, Cyprus, (2) registered mail addressed to

Respondent Warnke at Riga Fereou Street 47, 6013 Larnaca, Cyprus, and (3) certified mail addressed to Respondent Warnke c/o Namecheap, Inc., the registrar of the website for Respondent Sand Vegas Casino Club, at 4600 East Washington Street, Suite 305, Phoenix, Arizona 85034.

3. Martin Schwarzberger (“**SCHWARZBERGER**”) is being served by (1) registered mail addressed to Respondent Schwarzberger at Georgiou Seferis, 11, Majestic Gardens P1 B2, Apartment/Office 105, Tersefanou, 7562, Larnaca, Cyprus, (2) registered mail addressed to Respondent Schwarzberger at Riga Fereou Street 47, 6013 Larnaca, Cyprus, and (3) certified mail addressed to Sand Vegas Casino Club c/o Namecheap, Inc., the registrar of the website for Respondent Sand Vegas Casino Club, at 4600 East Washington Street, Suite 305, Phoenix, Arizona 85034.

#### **OTHER PARTIES**

4. OpenSea is owned and operated by Ozone Networks, Inc. dba OpenSea, and it acts as an online marketplace for discovering, buying and selling Non-Fungible Tokens (NFT). As described herein, OpenSea is listing NFTs issued by **RESPONDENTS** that are regulated as securities. This Cease and Desist Order does not name OpenSea as a respondent. The Commission, however, will send this Cease and Desist Order to OpenSea to notify OpenSea that it is listing unregistered securities available for sale in Alabama.

#### **STATEMENT OF FACTS**

5. This Cease and Desist Order is being entered to stop an illegal and fraudulent securities scheme tied to virtual casinos – including virtual casinos in metaverses.

6. Metaverses are virtual worlds focused on social connections, interactivity, commerce, entertainment and business. Various concepts of a singular metaverse or many different metaverses incorporate blockchain and web 3.0 technologies, access points such as

computers and augmented reality or virtual reality headsets, the interoperability of digital assets and the use of NFTs.

7. In this case, the **RESPONDENTS** are representing they are developing an internet casino and virtual casinos in various metaverses. Customers, acting virtually through avatars, will purportedly visit the metaverse casinos, participate in weekly tournaments, gamble on virtual horse racing and play virtual games such as blackjack, poker and baccarat.

8. The parties are funding the internet and metaverse casinos through the sale of more than 12,000 NFTs to the public.

9. The NFTs entitle owners to various benefits, including a pro rata share of profits generated by the internet and metaverse casinos. **RESPONDENTS** are estimating these profits may be worth as much as \$6,750 per month or \$81,000 per year per NFT.

10. Although the NFTs constitute securities, **RESPONDENTS** are advising purchasers that securities laws do not currently regulate NFTs and are considering further steps to obstruct the regulation of their NFTs.

11. The **RESPONDENTS** are concealing their locations, hiding the identities of managers, misleading potential purchasers about their experience and obscuring the significant risks associated with investing in their NFTs.

12. The Commission is entering this Cease and Desist Order to stop the scheme and prevent immediate and irreparable harm to the public.

**RESPONDENT SAND VEGAS CASINO CLUB IS NOT AFFILIATED WITH LAS**

**VEGAS SANDS CORPORATION**

13. Las Vegas Sands Corporation is a developer and operator of resorts and casinos, including resorts and casinos that operate in Las Vegas, Nevada.

14. **RESPONDENTS** are using a similar name for their organization by referring to it as Sand Vegas Casino Club, describing their brand as the “Sand Vegas Casino Brand” and using a logo with colors and styles similar to a logo for Las Vegas Sands Corporation.

15. Although **RESPONDENTS** are using a name and logo that are similar to the name and logo for Las Vegas Sands Corporation, Respondents are not associated or affiliated in any way with Las Vegas Sands Corporation.

**THE TEAM DEVELOPING THE ONLINE AND METAVERSE CASINOS**

16. **SAND VEGAS CASINO CLUB** consists of a team that includes **WARNKE**, **SCHWARZBERGER**, an unidentified Community Manager and an unidentified Social Media Manager. They are described as follows:

A. **WARNKE**, also known as SandLord.eth and @NFT\_DUUDE, is a co-founder of **SAND VEGAS CASINO CLUB** and its Head of Operations. **RESPONDENTS** are representing he “has over 8 years of experience in the online casino sector, coming from a marketing background,” and that he co-founded a previous project tied to NFTs.

B. **SCHWARZBERGER**, also known as DoubleDown and DoubleDown.eth, is a co-founder of **SAND VEGAS CASINO CLUB** and responsible for its marketing and relationships. **RESPONDENTS** are representing he previously “worked as an affiliate manager for a well-established online casino based in Malta & Cyprus, with a range of contacts in the [c]asino & [c]rypto [i]ndustry, especially when it comes to marketing.”

C. An unidentified person referred to as Blacky Jefferson, BlackyJefferson, BlackyJefferson21, BlackyJefferson21 and BlackyJefferson.eth purports to be the Community Manager for **SAND VEGAS CASINO CLUB**. **RESPONDENTS** are representing the

Community Manager “is an experienced community manager and helps us to moderate the Discord and pulls the strings behind the [s]cenes.”

D. An unidentified person referred to as Queen of Sand and Queenofsand.eth purports to be the Social Media Manager for **SAND VEGAS CASINO CLUB**. **RESPONDENTS** are representing the Social Media Manager “is responsible for outreach and partnerships, working together with Influencers, Streamers and is responsible for getting the word out.”

17. **RESPONDENTS** are also representing they are working with various third parties to develop NFTs and metaverse casinos. These third parties include an unidentified artist responsible for designing NFTs and various developers and software engineers responsible for developing casinos. They are described as follows:

A. **RESPONDENTS** are claiming an “Italian Designer” generated art for the NFTs. They are not, however, identifying the artist.

B. **RESPONDENTS** are representing various developers and software engineers are responsible for creating their casinos and they are naming NFTDrafter7110 as the “head of our builder team.” **RESPONDENTS** are not, however, identifying the developers or software engineers and they are not identifying NFTDrafter7110.

#### **THE METAVERSE CASINO IN THE SANDBOX METAVERSE**

18. **RESPONDENTS** are developing one or more metaverse casinos in the Sandbox. The Sandbox is a metaverse governed by a decentralized autonomous organization, often referred to as a DAO. It incorporates \$SAND, a cryptocurrency and governance token that permits participation in governing decisions through the DAO.

19. On or around January 4, 2022, **RESPONDENTS** purchased virtual land in the Sandbox for the metaverse casino. The virtual land consists of 27 virtual parcels of three 3x3 virtual plots.

20. **RESPONDENTS** have been providing information about the development of the metaverse casino in the Sandbox through various webcasts and AMAs, an acronym of “ask me anything” that refers to an interactive presentation where audiences ask questions and hosts provide answers in real time.

21. The webcasts and AMAs incorporate videos showing the development of the exterior and interior of the virtual building that will operate as a metaverse casino. **RESPONDENTS** are referring to this building as the Bellagio, a real luxury resort, hotel and casino located on the Las Vegas Strip in Paradise, Nevada.

22. The webcasts and AMAs also incorporate videos that show virtual slot machines, a virtual gaming table, building décor, a horse racing track, a statue of a horse that can eventually be mounted by avatars and a colorful revolving game resembling Wheel of Fortune titled Wheel of Sand.

#### **OTHER METAVESE CASINOS AND THE MULTIVERSE**

23. **RESPONDENTS** are planning to expand their metaverse casinos to the “multiverse” – meaning they plan to open metaverse casinos in “all of the relevant metaverses.”

24. **RESPONDENTS** are elaborating on their plans to operate in the multiverse by explaining they already purchased 12 plots of virtual land in Decentraland and will open one or more metaverse casinos in Decentraland. Decentraland is also a virtual world governed by a DAO. It incorporates \$MANA, a cryptocurrency governance token that permits participation in governing decisions through the DAO.

25. **RESPONDENTS** are also representing they purchased 10,122 square meters of virtual land in Infinity Void and plan to develop one or more metaverse casinos in Infinity Void. Infinity Void is a decentralized virtual world that provides a technology-driven real estate experience and focuses on graphics and immersion.

26. **RESPONDENTS** are further representing, they plan to purchase land in NFT Worlds and will develop one or more metaverse casinos in NFT Worlds. NFT Worlds is a decentralized community-driven play-to-earn virtual world that incorporates various aspects of Minecraft, a sandbox video game that sold more than 238 million copies since its release in November 2011.

#### **THE WEB 2.0 CASINO**

27. In addition to the metaverse and multiverse casinos, **RESPONDENTS** are developing an online casino accessible through internet. They are referring to this online casino as the web 2.0 casino.

28. **RESPONDENTS** purchased a domain for the web 2.0 casino, but they are not disclosing the domain name or the cost of acquiring the domain.

29. **RESPONDENTS** are representing that various third-party gaming providers will provide games for the web 2.0 casino. These gaming providers include Play'n GO Malta Limited and/or its affiliate Play'n GO AB, Big Time Studios Ltd., GAMOMAT Distribution GmbH, Evolution Gaming Limited and/or its affiliates Evolution Malta Holdings Limited and Evolution Gaming Malta Limited, Pragmatic Play Ltd and/or its affiliate Pragmatic Play (Gibraltar) Limited, N1 Games LTD dba BGaming, Old Charlie Technologies LTD dba Spinomenal and Playtech PLC.

30. **RESPONDENTS** represent they are taking steps to make the web 2.0 casino a "crypto casino." They plan to permit gamblers to connect cryptocurrency wallets to the web 2.0

casino, presumably to use cryptocurrencies such as Bitcoin and Ether to gamble in the web 2.0 casino.

31. **RESPONDENTS** represent they are now testing the web 2.0 casino and plan to launch the web 2.0 casino in late April 2022.

32. **RESPONDENTS** plan to embark on a “huge” marketing campaign contemporaneously with the launch of the web 2.0 casino. They claim the marketing campaign will drive traffic and gamblers to the web 2.0 casino and increase interest in Respondent Sand Vegas Casino Club. They are also representing the increasing interest will “definitely” cause the price of NFTs to increase.

33. Around two to four weeks after launching the web 2.0 casino and starting the marketing campaign, **RESPONDENTS** plan to permit gamblers to bet on sports in the web 2.0 casino and the metaverse casinos.

**FUNDING THE WEB 2.0 CASINO AND METAVVERSE CASINOS THROUGH SALES  
OF NFTS**

34. **RESPONDENTS** have been issuing and selling 12,222 NFTs consisting of Gambler NFTs and Golden Gambler NFTs. **RESPONDENTS** represent they are using the proceeds of these sales to fund the web 2.0 casino and metaverse casinos.

35. The Gambler NFTs consist of 11,111 NFTs, with 10,777 Gambler NFTs available to the public and the remaining 334 Gambler NFTs reserved for ownership by the team, the marketing of the casinos and the awarding of prizes to virtual gamblers. The proceeds of sales of Gambler NFTs fund the metaverse casinos.

36. The Golden Gambler NFTs consist of 1,111 NFTs available to the public, and the proceeds of sales of Golden Gambler NFTs fund the Web 2.0 casino.



**THE GAMBLER NFTS CONVEY OWNERSHIP OF ALL CASINOS AND OWNERS**

**SHARES IN THE PROFITS OF ALL CASINOS**

37. Owners of the 11,111 Gambler NFTs become owners of all metaverse casinos in the multiverse and the web 2.0 casino.

38. Owners of the Gambler NFTs share in 50 percent of the profits generated from all services inside the metaverse casinos, including profits from games, tournament fees and the sale of virtual drinks and cigarettes. They also share in 20 percent of the profits generated from the web 2.0 casino.

39. **RESPONDENTS** are representing the metaverse casinos in the Sandbox, the metaverse casinos in Decentraland and the web 2.0 casino will each generate between \$1,000,000 and \$20,000,000 in profits per month for a total ranging from \$3,000,000 to \$60,000,000 in aggregate profits per month. Accordingly, purchasers of the Gambler NFTs expect to receive between \$102 per NFT per month and \$2040 per NFT per month.

**THE GOLDEN GAMBLER NFTS CONVEY OWNERSHIP OF THE WEB 2.0 CASINO**

**AND OWNERS SHARES IN THE PROFITS OF THE WEB 2.0 CASINO**

40. Owners of the 1,111 Golden Gambler NFTs become owners of the web 2.0 casino.

41. Owners of the Golden Gambler NFTs also share in the 30 percent of the web 2.0 casino.

42. **RESPONDENTS** are using different data to describe the profitability of the Golden Gambler NFTs. They are representing the web 2.0 casino will generate between \$2,000,000 and \$25,000,000 in profits per month. Accordingly, purchasers of Golden Gambler NFTs expect to receive between \$540 and \$6750 per NFT per month.

**OTHER BENEFITS ASSOCIATED WITH THE GAMBLER NFTS AND GOLDEN  
GAMBLER NFTS**

43. **RESPONDENTS** are promising to provide other benefits to owners of the Gambler NFTs and Golden Gambler NFTs.

44. For example, the Gambler NFTs provide free entry to weekly tournaments and premium rates for advertising and linking portals to the metaverse casinos.

45. The Gambler NFTs also provide owners with guaranteed entry in a monthly lottery. Respondents are describing their implementation of the monthly lottery as follows:

A. **RESPONDENTS** are promising to airdrop lottery tickets to owners of Gambler NFTS, providing one ticket per NFT per month.

B. In addition to receiving lottery tickets via airdrop, owners of Gambler NFTs can purchase additional lottery tickets - or even sell their lottery tickets - through OpenSea.

C. **RESPONDENTS** are representing they partnered with MintMoneyNFT.io aka MintMoneyNFT aka MintMoney.eth aka MintMoney to administer the lottery.

D. MintMoneyNFT.io permits minting randomly generated NFTs that are lottery tickets and permits owners to participate in MATIC. MATIC is similar to Tick-Tack-Toe but displays a three-by-three grid containing a total of nine gems. Players engage with MATIC by aligning similar gems in vertical, horizontal or diagonal rows.

E. The lottery prizes are lucrative and include monetary awards up to \$250,000 and other prizes including iPhones, MacBooks, and automobiles.

F. Although **RESPONDENTS** are promising to reward winners with lucrative prizes, they also expect to generate revenue through the lotteries. They are representing they will

transfer most of the revenue to the “prizes pool.” **RESPONDENTS** will use the additional revenue to fund prizes pool to award even more lucrative prizes in future lotteries.

46. Additionally, on March 29, 2022, **RESPONDENTS** reportedly airdropped 777 voxel assets representing voxel characters to owners of Gambler NFTs. Voxel assets are assets consisting of 3D pixels that exist as cubes instead of squares, and they can be equipped by avatars and bought and sold in metaverse marketplaces. Voxel assets are airdropped when they are freely distributed from one party to another party on a blockchain platform.

47. The voxel assets, as well as other custom voxel assets available for purchase, provide rakeback and other benefits in the metaverse casinos.

48. **RESPONDENTS** are representing owners of Golden Gambler NFTs receive other benefits. For example, **RESPONDENTS** are representing owners of Golden Gambler NFTs are afforded the exclusive opportunity to gamble in “Golden Rooms” in the metaverse casinos, participate in a “Golden Lottery,” receive additional referral bonuses and attend exclusive events.

#### **THE OPENSEA MARKETPLACE**

49. **RESPONDENTS** have been directing purchasers to mint the Gambler NFTs and Golden Gambler NFTs through OpenSea, and they are now directing purchasers to buy the Gambler NFTs and Golden Gambler NFTs through OpenSea.

50. As of April 9, 2022, OpenSea is listing 11,111 Gambler NFTs and 1,111 Golden Gambler NFTs.

51. As of approximately 4:20PM Central Time on April 9, 2022, OpenSea is listing the Gambler NFTs for between 0.23 ETH or \$744.38 and 777.77 ETH or \$2,517,190.39.

52. As of approximately 4:20PM Central Time on April 9, 2022, OpenSea is listing the Golden Gambler NFTs for between 2.13 ETH or \$6,893.57 and 169 ETH or \$546,954.98.

53. OpenSea permits the payment of royalties, referred to as “creator earnings” to **SAND VEGAS CASINO CLUB** for sales of the Gambler NFTs and Golden Gambler NFTs.

**INTERNET AND SOCIAL MEDIA PROMOTIONS AND/OR SOLICITATIONS**

54. **RESPONDENTS** are advertising and/or soliciting the Gambler NFTs and the Golden Gambler NFTs through an internet website accessible at <https://sandvegascasino.club/> and social media platforms such as YouTube, Twitter and Instagram.

55. **RESPONDENTS** are encouraging users to interact through their social media platforms and they are rewarding the most active users.

56. **RESPONDENTS** are conducting online lotteries to reward these active users. They have already completed three lotteries, and these three lotteries are described in more detail as follows:

A. On or about February 21, 2022, **RESPONDENTS** conducted an online lottery for “silver” members of their Discord, announced the winner and promised to reward the winner with an iPhone 12 Pro. They also represented future prizes will include a MacBook Pro, an iMac and a Tesla.

B. On or about March 22, 2022, **RESPONDENTS** conducted an online lottery for “diamond” members of their Discord, announced the winner and promised to reward the winner with a MacBook Pro;

C. On or about April 2, 2022, **RESPONDENTS** conducted a virtual lottery for “obsidian” members of their Discord, announced the winner and promised to reward the winner with an iMac. They also promised to reward a “platinum” member of Discord with a Tesla during or around the week beginning April 17, 2022.

## STREAMERS AND MARKETERS

57. **RESPONDENTS** are planning to promote **SAND VEGAS CASINO CLUB**, the metaverse casinos and the web 2.0 casino through casino streamers, influencers, marketers and affiliates.

58. **RESPONDENTS** are partnering with casino streamers and describing their partnership as follows:

A. **RESPONDENTS** are claiming they are working with “casino streamers all over the world” and have “agreed on the first partnerships” with these casino streamers; and

B. **RESPONDENTS** are representing they cannot disclose the identity of the casino streamers, because they are bound by non-disclosure agreements.

59. **RESPONDENTS** are further representing they have engaged online marketers to run paid advisements for the metaverse casino, and they will be “attractively rewarded” if they bring customers to the metaverse casino.

60. The advertisements and/or solicitations will broadcast, at a minimum, through TikTok, Instagram, Facebook, Reddit and Quora, and advertisements broadcast through these platforms will raise brand awareness.

61. They will purportedly implement a referral program to attract streamers and affiliate marketers, although implementation is contingent upon issues associated with programming and the regulations and logics inside the metaverse.

62. **RESPONDENTS** are representing their marketing campaigns will cause the floor price of NFTs to “go to the moon” and it will “at least triple or quadruple.”

### DONATIONS TO CHARITY

63. **RESPONDENTS** are representing they will donate one percent of profits generated in the metaverse casino to different charities.

64. Owners of Gambler NFTs collectively vote to determine the charity that receives the donations.

### THE HACK

65. On or around January 8, 2022, **RESPONDENTS** announced a hack of their Discord social media platform in a tweet published in Twitter.

66. **RESPONDENTS** later explained the hack occurred when an unidentified assailant used an automated software application commonly known as a “bot” to hack their Discord.

67. The hacker purportedly spoofed a page for minting NFTs and misappropriated around 50 ETH from users of their Discord.

68. On the date of the hack, ETH closed at \$3,091.97 per token, meaning the hacker allegedly appropriated ETH valued at around \$154,598.50 on the date of the hack.

69. **RESPONDENTS** represented they placed a bounty on the hacker. They also represented they are reimbursing victims.

70. **RESPONDENTS** did not, however, describe any attempt to report the hack to a law enforcement agency or a regulatory agency, and they did not indicate they reported the hack to Discord.

### PLANS TO OBSTRUCT REGULATION AS SECURITIES

71. **RESPONDENTS** are advising purchasers they are taking steps to satisfy all regulatory and legal requirements associated with the operation of metaverse casinos. They are

also advising clients they will obtain necessary licensure, will comply with Know Your Customer (KYC) requirements and will ensure minors do not gamble in the metaverse casinos.

72. **RESPONDENTS** are also representing they comply with laws regulating the sale of securities because securities laws do not currently regulate NFTs as an asset class.

73. **RESPONDENTS** are further advising purchasers they will take steps to ensure the NFTs are not regulated by securities laws. They are claiming they can remove the NFTs from regulation by adding illusory terms to the NFTs and using different terminology when describing the payment of profits to owners of NFTs.

#### **REGISTRATION VIOLATIONS**

74. The representations regarding the applicability of the securities laws are false. The Gambler NFTs and Golden Gambler NFTs constitute investment contracts and certificates in or under profit sharing agreements and as such the Act regulates their offer and sale in Alabama.

75. **RESPONDENTS** have not been registered with the Commission as dealers or agents at any time material hereto.

76. The Gambler NFTs and Golden Gambler NFTs have not been registered by notification, coordination or qualification in Alabama, and no permit has been issued for their sale in Alabama.

#### **DECEIT AND THE LIKENESS OF LAS VEGAS SANDS CORPORATION**

77. As described herein, **RESPONDENTS** are using a name and logo that are similar to the name and logo for Las Vegas Sands Corporation, and **RESPONDENTS** are planning to recreate Vegas as a Metaverse Las Vegas.

78. These statements are materially misleading or otherwise likely to deceive the public, because **RESPONDENTS** are not associated or affiliated in any way with Las Vegas Sands Corporation.

**FRAUD AND CONCEALMENT OF THE LOCATION OF RESPONDENTS**

79. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are intentionally failing to disclose their physical location and the physical address for the offices of **SAND VEGAS CASINO CLUB**, and this information constitutes a material fact.

**FRAUD AND CONCEALMENT OF THE QUALIFICATIONS OF PRINCIPALS**

80. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **SAND VEGAS CASINO CLUB** and **SCHWARZBERGER** are intentionally failing to disclose the business repute, qualifications and experience of **SCHWARZBERGER** that relate to casinos, business management and metaverses, and this information constitutes a material fact.

81. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **SAND VEGAS CASINO CLUB** and **WARNKE** are intentionally failing to disclose the business repute, qualifications and experience of **WARNKE** that relate to casinos, business management and metaverses, and this information constitutes a material fact.

82. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are intentionally failing to disclose the identity of the Community Manager referred to as BlackyJefferson and BlackyJefferson21, and this information constitutes a material fact.

83. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are intentionally failing to disclose the business repute, qualifications and



experience of the Community Manager referred to as BlackyJefferson and BlackyJefferson21 that relate to casinos, business management and metaverses, and this information constitutes a material fact.

84. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, Respondents are intentionally failing to disclose the business reputes, qualifications and experience of the Social Media Manager referred to as Queen of Sand and Queenofsand.eth, and this information constitutes a material fact.

85. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are intentionally failing to disclose the identity of the Social Media Manager referred to as Queen of Sand and Queenofsand.eth that relate to casinos, business management and metaverses, and this information constitutes a material fact.

#### **FRAUD AND THE ROYALTIES**

86. As described herein, OpenSea permits the payment of royalties, referred to as “creator earnings,” of up to 10 percent to Respondent Sand Vegas Casino Club whenever a Gambler NFT or Golden Gambler NFT is sold through OpenSea.

87. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are not disclosing the value of the royalties, and this information constitutes a material fact.

#### **DECEPTION AND PRIOR EXPERIENCE WITH ONLINE CASINOS**

88. As described herein, **RESPONDENTS** are claiming **SCHWARZBERGER** and **WARNKE** previously worked with or for online casinos as follows:

A. **SCHWARZBERGER** is representing he and **WARNKE** “worked before in the online casino sector, helped them to basically do their marketing helped them to get new players, to get new customers;” and

B. **WARNKE** is representing he “worked with several online casinos and was developing marketing strategies for them and bringing them new customers.”

89. These statements are materially misleading or otherwise likely to deceive the public, because **RESPONDENTS** are not disclosing the names of the online casinos, their positions with the online casinos, the duration of their employment by or affiliation with the online casinos or their duties in marketing for online casinos.

**FRAUD AND THE DEVELOPERS, SOFTWARE ENGINEERS AND ARTIST**

90. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are representing their developers and software engineers are responsible for creating the metaverse casino in the Sandbox but they are intentionally failing to disclose the following material facts relating to the developers and software engineers:

A. **RESPONDENTS** are intentionally failing to disclose the identity of the developers and software engineers, and this information constitutes a material fact;

B. **RESPONDENTS** are intentionally failing to disclose the business repute, qualifications and experience of the developers and software engineers, and this information constitutes a material fact; and

C. **RESPONDENTS** are intentionally failing to disclose the compensation that has or will be paid to the developers and software engineers, and this information constitutes a material fact.

91. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are representing an “Italian Designer” generated art for the Gambler and Golden Gambler NFTs that contains more than 200 algorithmically generated traits, but they are intentionally failing to disclose the following material facts relating to the artist:

A. **RESPONDENTS** are intentionally failing to disclose the identity of the artist, and this information constitutes a material fact; and

B. **RESPONDENTS** are intentionally failing to disclose the compensation that has or will be paid to the artist, and this information constitutes a material fact.

### **DECEIT AND THE HACK**

92. As described herein, on or around January 8, 2022, **RESPONDENTS** announced a hack of their Discord social media platform in a tweet published in Twitter. As also described herein:

A. **RESPONDENTS** later explained the hack occurred when an unidentified assailant used an automated software application commonly known as a “bot” to hack their Discord.

B. The hacker purportedly spoofed a page for minting NFTs and misappropriated around 50 ETH from users of their Discord.

C. On the date of the hack, ETH closed at \$3,091.97 per token, meaning the hacker allegedly appropriated ETH valued at around \$154,598.50 on the date of the hack.

D. **RESPONDENTS** represented they placed a bounty on the hacker. They also represented they are reimbursing victims.

93. These statements are materially misleading or otherwise likely to deceive the public because:

A. **RESPONDENTS** are not describing the steps they are taking to identify bots in Discord or improve cybersecurity;

B. **RESPONDENTS** are not describing any attempt to report the hack to a law enforcement agency or a regulatory agency, and they did not indicate they reported the hack to Discord; and

C. **RESPONDENTS** are not identifying the source of funds that will be used to pay for the bounty on the hacker or reimburse victims.

**DECEIT AND REPRESENTATIONS RELATING TO SECURITIES REGULATION**

94. As described herein, **RESPONDENTS** are advising purchasers that securities laws do not currently regulate NFTs as an asset class.

95. As also described herein, **RESPONDENTS** are advising purchasers they plan to add illusory terms to the NFTs or use different words when dealing with purchasers of their NFTs to remove their NFTs from any potential regulation by securities laws.

96. These statements are materially misleading or otherwise likely to deceive the public because:

A. The Gambler NFTs and Golden Gambler NFTs are regulated as securities by the Act;

B. The Gambler NFTs and Golden Gambler NFTs are not registered with or permitted by the Commission for sale in Alabama;

C. **RESPONDENTS** are not registered as dealers or agents with the Commission and as such are not authorized to offer the Gambler NFTs and Golden Gambler NFTs in Alabama; and

D. **RESPONDENTS** cannot avoid regulation by adding illusory terms to their NFTs or using different words when dealing with purchasers of their NFTs.

**FRAUD AND THE RISKS ASSOCIATED WITH ONLINE AND METAVERSE**

**CASINOS**

97. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are intentionally failing to disclose the following risks associated with operating casinos, and these risks constitute material facts:

A. The failure to successfully market the virtual casino, and the failure to grow or sustain the number of customers, may negatively impact profitability or lead to losses;

B. A virtual casino competes with physical and virtual casinos and may need to significantly invest in technology, research and development and marketing to maintain or increase competitiveness;

C. A virtual casino competes with other forms of gambling, entertainment and free-to-play platforms;

D. Delays in the implementation of new games or holding new events may negatively impact revenue;

E. Fraud, theft and gambling scams may negatively impact profitability;

F. The costs of developing and implementing any necessary anti-money laundering and Know Your Customer standards may limit profitability; and

G. The costs of acquiring and maintaining any necessary licensure, as well as the inability to obtain or retain any necessary licensure, may cause a web 2.0 casino or metaverse casino to close.

## **FRAUD AND THE RISKS ASSOCIATED WITH NFTS**

98. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are intentionally failing to disclose the following risks associated with NFTs, and these risks constitute material facts:

A. Bad actors may hack or exploit systems and steal NFTs or appropriate digital assets;

B. Domestic or foreign governments may adopt legislation or regulations that negatively impact the use, transfer, exchange or price of NFTs;

C. NFTs compete with other digital assets, and this competition may negatively impact the price of an NFT;

D. The market for NFTs is new and volatile, and the price of an NFT as it relates to fiat currency may greatly decrease over a short period of time, impacting the liquidity of an NFT and the price of an NFT;

E. Bad actors may attempt to impersonate owners of NFTs, counterfeit NFTs, sell replicas of original NFTs, or misuse art tied to NFTs; and

F. Businesses or organizations that issue NFTs may go out of business, declare bankruptcy or cease operations, thereby decreasing the use or value of its NFTs.

## **FRAUD AND OTHER RISKS ASSOCIATED WITH THE GAMBLER NFTS AND**

### **GOLDEN GAMBLER NFTS**

99. In connection with the offer of Gambler NFTs and Golden Gambler NFTs, **RESPONDENTS** are intentionally failing to disclose the following additional risks associated with Gambler NFTs and Golden Gambler NFTs, and these additional risks constitute material facts:

A. Domestic or foreign governments may adopt legislation or regulations that negatively impact some or all metaverses, gambling in some or all metaverses or gambling in web 2.0 casinos;

B. Metaverses are new platforms with uncertain viability, and any cessation of operations may negatively impact businesses, including casinos, operating in their metaverses;

C. Metaverses compete with other metaverses, and this competition may limit the population of the metaverses and the number of clients of metaverse casinos;

D. Users must invest in hardware and internet service to access the metaverses, and increases in the actual or relative costs of hardware and internet service may limit the population of metaverses and the number of clients of metaverse casinos;

E. Cybersecurity risks from criminals targeting **RESPONDENTS** using distributed denial-of-service attacks, malware and phishing campaigns may limit the ability of **RESPONDENTS** to market their web 2.0 casino and metaverse casinos;

F. Changes to economies in the real world, as well as changes to economies in the Sandbox and Decentraland Metaverses, may negatively impact the amount of currency spent in metaverse casinos;

G. The Sandbox and Decentraland Metaverses are tied, respectively, to \$SAND cryptocurrency and \$MANA cryptocurrency, and as such they incorporate risks associated with \$SAND, \$MANA and other cryptocurrencies;

H. Metaverses may limit the ability of businesses to advertise, increase the costs of advertising or restrict the locations of advertisements, and these acts may impair the ability to attract new clients; and

I. New technologies may replace NFTs and metaverses, thereby limiting the liquidity and profitability of the Gambler NFTs and Golden Gambler NFTs and demand for metaverse casinos.

### CONCLUSIONS OF LAW

100. Pursuant to Section 8-6-2(2), Code of Alabama, 1975, the definition of “agent” includes any individual who represents a dealer or issuer in effecting or attempting to effect sales of securities. By effecting sales of NFTs to the Investor, **WARNKE** and **SCHWARZBERGER** acted as an “agent” of **SAND VEGAS CASINO CLUB** as defined by the Act.

101. Pursuant to Section 8-6-2(10), Code of Alabama, 1975, the definition of a “security” includes investment contracts and the profit sharing agreement outlined by **RESPONDENTS** require the investment of cryptocurrency managed by **RESPONDENTS** from which investors expect profits to be derived from the efforts of **RESPONDENTS** and are securities as defined by the Act.

102. Pursuant to Section 8-6-3(a), Code of Alabama, 1975, it is unlawful for any person to transact business as an agent unless he is registered under the Act. **WARNKE** and **SCHWARZBERGER** acted as an agent of **SAND VEGAS CASINO CLUB** while not registered with the Commission in violation of the Act.

103. Pursuant to Section 8-6-4, Code of Alabama, 1975, it is unlawful for any person to offer or sell any security in this state unless it is registered or subject to a perfected exemption from registration under the Act. The NFTs that represent the profit sharing agreement as securities of **SAND VEGAS CASINO CLUB** are neither registered nor subject to a perfected exemption from registration and are being offered and sold by **WARNKE** and **SCHWARZBERGER** to the Alabama investors in violation of the Act.



104. Pursuant to Section 8-6-17(a)(2), Code of Alabama, 1975, it is unlawful for any person, in connection with the offer, sale or purchase of any security, directly or indirectly, 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. **RESPONDENTS** are engaging in fraud in connection with the offer for the sale of securities by way of making offers containing statements that are materially misleading or otherwise likely to deceive the public. The **RESPONDENTS** conduct, acts, and practices threaten immediate and irreparable harm. The **RESPONDENTS** omitted to state material facts necessary to make other statements made not misleading in connection with the offer or sale of securities and promised excessive returns to investors.

This Order is appropriate in the public interest for the protection of investors and is consistent with the purposes of the Act.

This Order does not prevent the Commission from seeking such other civil or criminal remedies that may be available to it under the Alabama Securities Act.

Additionally, if the allegations set forth herein are found to be true, though either administrative adjudication, failure of the **RESPONDENTS** to make a timely request for hearing, or default of the **RESPONDENTS**, it is the intention of the Commission to impose sanctions upon the **RESPONDENTS**. Such sanctions may include, inter alia, an administrative assessment imposed on **RESPONDENTS**, an additional administrative assessment for investigative costs arising from the investigation of the violations described herein against **RESPONDENTS**, and a permanent order to bar **RESPONDENTS** from participation in any securities-related industry in the State of Alabama.

**ACCORDINGLY, IT IS HEREBY ORDERED** that **RESPONDENTS CEASE AND DESIST** from further offers or sales of any security into, within or from the State of Alabama.

Entered at Montgomery, Alabama, this 13<sup>th</sup> day of April, 2022.



ALABAMA SECURITIES COMMISSION  
445 Dexter Avenue, Suite 12000  
Montgomery, AL 36104  
(334) 242-2984

BY:

A handwritten signature in black ink, appearing to read "JP Borg", is written over the printed name and title.

JOSEPH P. BORG  
Director