

STATE OF VERMONT
DEPARTMENT OF FINANCIAL REGULATION

| | | |
|--------------------------|---|----------------------------|
| IN THE MATTER OF: |) | |
| |) | |
| LEVELNET INC. and |) | |
| PAUL SHKLIAEV |) | Docket No. 18-030-S |
| |) | |
| Respondents. |) | |

MOTION FOR EX PARTE CEASE AND DESIST ORDER

NOW COMES the Vermont Department of Financial Regulation (the “Department”), by and through the Securities Division of the Department, and moves the Commissioner of the Department to issue an Order, pursuant to 9 V.S.A. § 5604(a)(1) and Department Regulation No. 82-1 (Revised) § 13, against the above-named Respondents to cease and desist from violating the Vermont Uniform Securities Act

RESPONDENTS

1. LevelNet is a corporation organized in California with a registered business address of 34 Peach Blossom, Irvine, California 92618. LevelNet’s website states that its US Office is located at 100 Spectrum Center Drive, Suite 900, Irvine, California 92618. The corporation is described as a software development business.
2. LevelNet is not registered to do business with the Vermont Secretary of State’s Office and has not registered in any capacity with the Vermont Securities Division.
3. Paul Shkلياev is the Chief Executive Office and founder of LevelNet. His last known address is 34 Peach Blossom, Irvine, CA 92618.

JURISDICTION AND AUTHORITY

4. The Commissioner of the Department (“Commissioner”) is responsible for administering and enforcing the Vermont Uniform Securities Act (“Securities Act” or “VUSA”), Title 9, Chapter 150 of the Vermont Statutes Annotated, and the Vermont Securities Regulations, Order 06-43-S (replaced by Rule S-2016-01, effective July 1, 2016).
5. Pursuant to the provisions of 9 V.S.A. 5604, the Commissioner is authorized to issue a cease and desist order when the Commissioner determines that a person has engaged, is engaging, or is about engage in an act, practice, or course of business constituting a violation of the Vermont Uniform Securities Act.
6. Pursuant to the authority contained in Section 13 of Department Regulation 82-1 (Revised), the Commissioner is authorized by law to issue a cease and desist order without written or oral notice to the Respondent.

FINDINGS OF FACT

The LevelNet Offering

7. LevelNet is currently conducting an Initial Coin Offering (“ICO”) and is in the “pre-sale” stage of the offering. Affidavit of Emily Kisicki at ¶ 3.
8. Shkلياev is the face of the offering. He appears in interviews and video broadcasts to promote the offering. LevelNet has a YouTube channel with information videos describing LevelNet, its projects, and the ICO. These videos typically feature Shkلياev. Affidavit of Emily Kisicki at ¶ 17.
9. LevelNet describes two phases of the ICO and names two issuers of tokens, Level Capital LLC (issuer of “LVL tokens”) and LevelNet Foundation (issuer of “LVLS tokens”). These two entities do not appear to be formally organized or registered under state law.

10. The ICO's stated purpose is "fundraising for the development and launch of LevelNet Network." Affidavit of Emily Kisicki at ¶ 7.

11. LevelNet purports to be developing a decentralized antivirus platform to be shared by members of the LevelNet Network. LevelNet's advertising anticipates that it will have rapid success that will result in returns for project investors. LevelNet projects on its website that it "will reach one hundred million users by 2021, with over \$220 million in sales and over \$80 million of free cash flows for distribution to shareholders." Affidavit of Emily Kisicki at ¶ 6.

12. On May 16, 2018, the "ICO details" page stated that \$777,132 was raised through 346 backers. On May 24th, 2018, the "ICO details" page stated that \$749,981 was raised through 359 backers. A "token sale bonus" structure is detailed on the website as: 10% for 0-\$1.5 million raised, 7% for 1.5-5m raised, 5% for 5-7 million raised, and 3% for 7-12 million raised. The "soft cap" is \$1.5 million, and the "hard cap" is \$12 million. Details are also given regarding the "Roadmap": the LVL token sale began in Quarter 1 of 2018, "exchange of LVL stock tokens for LVLS tokens" will take place in Quarter 4 of 2018, and sales of LVLS tokens will take place in Quarter 1 of 2019. Affidavit of Emily Kisicki at ¶ 13.

The LevelNet Offering: Investment in a Common Enterprise

13. Phase One of the Offering. During the time that the ICO is being conducted, LevelNet is still in its development phase and is not currently operational. LevelNet, through Level Capital, will issue "LVL tokens", that will be invested in "operations and infrastructure development for the final completion of LevelNet End-Point Security and its commercial launch". LVL tokens will be sold on cryproshare exchanges. Affidavit of Emily Kisicki at ¶¶ 7 and 8.

14. Phase Two of the Offering. LevelNet, through LevelNet Foundation, will create an investment fund and issue "LVLS tokens" to investors in the fund. These tokens represent shares

in the LevelNet Network project and the investor will share in the funds profits. In this phase, LVL tokens may also be exchanged for LVLS tokens. Affidavit of Emily Kisicki at ¶ 9.

15. In both phases of the offering, purchasers of tokens are providing capital to LevelNet for investment in the LevelNet Network.

LevelNet Offering: Expectation of Profit

16. LevelNet makes representations to potential investors regarding the expectation of profit resulting from the investment in both phases of the ICO, to be gained through no effort of the investor. LevelNet represents that an investor may make money in a number of ways, including (1) through the increase in the value of its tokens; (2) as a result of the ability to exchange LVL tokens for LVLS tokens; and (3) by owning shares of LevelNet and participating in the profits of the LevelNet Network. Affidavit of Emily Kisicki at ¶ 15.

17. LevelNet attempts to distinguish the profitability of its offering from the myriad of other offerings by internet companies. LevelNet states “unlike many internet companies” LevelNet projects will generate significant profits and investors will share in those profits in a relatively short time. LevelNet places a valuation of the company at between \$583,000,000 and \$1,268,000,000. LevelNet projects that at a \$1,000,000,000 valuation, investors in phase two may earn a return of 2062% over 4-5 years. Affidavit of Emily Kisicki at ¶ 16.

LevelNet Offering: Availability

18. LevelNet tokens are available for purchase by investors located in the United States, including in Vermont. LevelNet has made various statements regarding limits on U.S.-based buyers, including stating in its “ICO FAQs” that US citizens purchasing tokens for speculative purposes must invest through Startengine.com, a crowdfunding platform. No such Startengine

offering currently exists. The “ICO FAQs” also purport to limit investment in LVLS tokens in the United States to “qualified investors.” Affidavit of Emily Kisicki ¶ 10.

19. Despite claims regarding limits placed on US participants, once an investor expresses interest in the offering, LevelNet communication suggests that no such limits exist. One communication from LevelNet expressly stated that LevelNet may now accept investments from US residents, including the purchase of shares in LevelNet. Affidavit of Emily Kisicki at ¶ 11.

20. After Ms. Kisicki’s initial contact with LevelNet, a subsequent visit to LevelNet’s webpage revealed two pop ups: 1) advising that she could get a promo code for 1000 tokens sent to her via Facebook Messenger, and 2) advising that she could join LevelNet now and get “10% bonus for tokens before \$1.5m”. The homepage stated that the public pre-sale is live and ends in 15 days, 14 hours. Affidavit of Emily Kisicki at ¶ 12.

21. After viewing the LevelNet webpage, Ms. Kisicki was the target of internet advertising by LevelNet on other sites on multiple occasions. Affidavit of Emily Kisicki at ¶ 18.

22. LevelNet does not appear eligible for a registration exemption as it did not notice file through the US Securities and Exchange Commission’s Edgar Database.

23. By promoting its offering with no restrictions on its website, through targeted advertising, and elsewhere on the internet, LevelNet and Shkلياev are advertising, promoting, and offering securities to United States residents, including Vermont residents.

CONCLUSIONS OF LAW

24. Pursuant to § 5604(a)(1) of the VUSA, the Commissioner may issue a cease and desist order without a prior hearing if he determines that “a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation” of the Vermont Uniform Securities Act.

25. The LVL tokens offered in the LevelNet ICO by Level Capital are “securities” as defined in 9 V.S.A. § 5102(28)(D).

26. LevelNet is offering securities in the form of LVL tokens that are neither registered with the Division, nor “federal covered,” nor exempt from registration, in violation of 9 V.S.A. § 5301.

27. LevelNet is effecting or attempting to effect transactions in securities for the accounts of others or for its own account without registration, in violation of 9 V.S.A. § 5401(a).

28. LevelNet has engaged in deceptive advertising in violation of V.S.R. § 3-1(e)(16) by making unfounded and unrealistic claims regarding expected project success and investor returns, and by falsely asserting that the ICO does not represent a securities offering and is in compliance with securities laws.

29. Accordingly, LevelNet has engaged in, is engaging in, or is about to engage in a violation of 9 V.S.A. § 5301; LevelNet has engaged in, is engaging in, or is about to engage in a violation of 9 V.S.A. § 5401 of the VUSA; and LevelNet has engaged in, is engaging in, or is about to engage in a violation of V.S.R. § 3-1(e)(16).

30. Shkلياev, by actively promoting the offering is transacting business in the State without registration as an agent in violation of 9 V.S.A. § 5402(a).

31. Shkلياev has engaged in, is engaging in, or is about to engage in a violation of 9 V.S.A. § 5402(a).

32. 9 V.S.A. § 5604 authorizes the Commissioner to issue an order directing a person to cease and desist from engaging in an act, practice, or course of business that constitutes a violation of the VUSA.

33. 9 V.S.A. § 5604 further authorizes the Commissioner, in a final order, to order a civil penalty; costs of investigation; restitution; and/or disgorgement of any sums obtained in violation of the VUSA.

RELIEF REQUESTED

Based on the above factual allegations and alleged violations of law, and for the public interest, the Securities Division requests that the Commissioner issue an order directing LevelNet Inc. and Paul Shkلياev to cease and desist from offering the LevelNet ICO in Vermont.

Dated at Montpelier, Vermont this 25th day of May 2018.

Vermont Department of Financial Regulation

By: 

Karla Nuissl

Assistant General Counsel

89 Main Street /Montpelier, VT 05620-3101

(802) 828-2963 /Karla.Nuissl@vermont.gov

AFFIDAVIT OF EMILY KISICKI

I, Emily Kisicki, being duly sworn, hereby depose and state the following:

1. I am the Director of Examinations and Enforcement in the Securities Division (“the Division”) of the Vermont Department Financial Regulation (“the Department”).
2. I have been employed by the Department as Assistant General Counsel from November 2014 to March 2017, and in the Division as the Director of Examinations and Enforcement since March 2017. During this period, among other things, I have acted as legal counsel for securities enforcement matters, reviewed securities offerings, and investigated potential violations of the Vermont Uniform Securities Act (“VUSA”).
3. In or around early April 2018, I became aware of an Initial Coin Offering (“ICO”) being conducted by LevelNet.
4. Between early April to present, I have conducted internet research regarding LevelNet’s ICO. I have visited LevelNet’s webpage on multiple occasions (<https://levelnet.co>) and reviewed the website content and linked documents. I have also read information regarding, and reviews of, the ICO on various cryptocurrency forums and websites.
5. LevelNet’s webpage provides a physical office address of 100 Spectrum Center Drive, Suite 900, Irvine, California 92618. I looked up LevelNet on the California Secretary of State’s website and found that LevelNet is a California-registered corporation with an incorporation date in July 2017. LevelNet’s CEO is Pavel Shkلياev. LevelNet’s registered agent is Tatiana Abgarian, 27872 Colonial Mission, Viejo, California, 92692.

6. Through my review of LevelNet's ICO, I learned that LevelNet purports to be developing a "decentralized antivirus platform". According to an Executive Summary of the ICO that I read on May 18, 2018, LevelNet is managed by "Level Capital" ("Executive Summary", https://levelnet.co/docs/es_en.pdf). The company projects that LevelNet will reach one hundred million users by 2021, with over \$220 million in sales and "over \$80 million of free cash flows available for distribution to shareholders."
7. LevelNet is still in its development phase, and is not currently operational. LevelNet's "White Paper" dated January 2018 (https://levelnet.co/docs/wp_en.pdf) states regarding the token offering that "the main purpose of this fundraising is for the development and launch of LevelNet with its accompanying products."
8. According to the Executive Summary, Level Capital will issue "LVL tokens", that will be invested in "operations and infrastructure development for the final completion of LevelNet End-Point Security and its commercial launch". The Executive Summary states that the LVL tokens will be sold on cryptoshare exchanges.
9. The Executive Summary provides that LevelNet also plans to create a British Virgin Islands investment fund and issue "LVLS tokens", which will "provide shares in the LevelNet project" and will "allow participation in the sharing of the fund's profits starting in 2021." The Executive Summary further states that "all holders of the LVL tokens will be able to exchange them for LVLS."
10. LevelNet tokens are available for purchase by investors located in the United States, including in Vermont. LevelNet has made various statements regarding limits on

U.S.-based buyers, including stating in its “ICO FAQs” that US citizens purchasing tokens for speculative purposes need to invest through Startengine.com, a crowdfunding platform. No such Startengine offering currently exists. The “ICO FAQs” also state that “in the US, ‘qualified investors’ only can get LVLS tokens”.

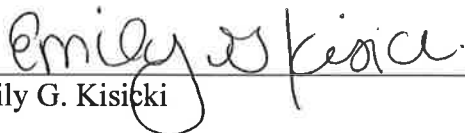
11. On May 16, 2018, I received an email from LevelNet (no-reply@leve3lnet.co) with a link to a post titled “LevelNet announces extension of Pre-Sale and Bonus period”. I clicked the link, and was led to a news release from LevelNet advertising that the ICO “pre-sale” was extended through May 30th, 2018. The release further stated that “[a]nother good news is that now we can accept payments from US residents as well. US citizens also receive a share in LevelNet Inc. when buying tokens.”
12. I visited LevelNet’s webpage at 8:28 am on May 16, 2018. Upon arriving at the webpage, two pop ups appeared: 1) advising that I could get a promo code for 1000 tokens sent to me via Facebook Messenger, and 2) advising that I could join LevelNet now and get “10% bonus for tokens before \$1.5m”. The homepage stated that the public pre-sale is live and ends in 15 days, 14 hours. The homepage stated that \$777,132 was “currently raised”.
13. On May 16, 2018, the “ICO details” page stated that \$777,132 was raised through 346 backers. The “token sale bonus” structure is detailed as: 10% for 0-\$1.5m raised, 7% for 1.5-5m raised, 5% for 5-7m raised, and 3% for 7-12m raised. The “soft cap” is \$1.5 million, and the “hard cap” is \$12 million. Details are also given regarding the “Roadmap”: the LVL token sale began in Quarter 1 of 2018, “exchange of LVL stock tokens for LVLS tokens” will take place in Quarter 4 of 2018, and sales of LVLS tokens will take place in Quarter 1 of 2019.

14. On May 24, 2018, the “ICO details” page stated that \$749,381 was raised through 359 backers.
15. I observed that LevelNet makes representations regarding profitability of its tokens. For example, within the “ICO FAQs” section of its webpage, LevelNet states:
“[t]here are several ways to make money on our tokens. Of course, one of the options is market speculation on the growth/drop of the token value, the opportunity to sell it at a higher price than at the time of buying. An additional option is the exchange of the LVL token for LVLS during the second phase. LVLS tokens will allow owners to participate in the profit distribution, to get dividends.”
16. In the “Financial Valuation” section of the “Whitepaper” dated January 2018 (https://levelnet.co/docs/wp_en.pdf), the following statement is made: “Unlike many internet companies, LevelNet projects to generate significant profits for shareholders in relatively short time. For this reason, LevelNet is valuing the company using a traditional DCF (discounted cash flow) model. This yields a valuation of between \$583 MLN and \$1268 MLN. LevelNet is currently seeking to raise between \$1.5 to approx. \$12 MLN to finance the launch of the LevelNet Network. Investors and participants in the initial token offering (phase 2) may reach an ownership level of up to 40% in LevelNet. If a \$1 billion valuation is reached, investors stand to earn a return of 2062% over 4-5 years, equivalent to a CAGR of 84.9%..”
17. I observed that LevelNet CEO Pavel Shklyakov has actively promoted the project and ICO in forums such as interviews and video broadcasts. I observed that LevelNet has a YouTube channel (<https://www.youtube.com/channel/UCB6xtJLAFD-ovTTyr9JhjDw>). On this channel, LevelNet posts informational videos regarding its

project and promoting the ICO. The videos typically feature Mr. Shkلياev discussing the project and ICO.


18. I observed targeted advertising for LevelNet's ICO on multiple occasions, including on Accuweather.com on April 25th, May 14th, and May 18th, and on the New York Times on May 18th.
19. To the best of my knowledge, LevelNet is not registered with the Division in any capacity to conduct securities business in Vermont. Pavel Shkلياev is not registered with the Division in any capacity to conduct securities business in Vermont. No securities offered by LevelNet have been registered with the Division.

DATED at Montpelier, Vermont this 25 day of May, 2018.



Emily G. Kisicki

Subscribed and sworn to before
Me this 25th day of May, 2018.



Notary Public
Commission Expires: 5/10/2019

**STATE OF VERMONT
DEPARTMENT OF FINANCIAL REGULATION**

IN THE MATTER OF:

**LEVELNET INC. and
PAUL SHKLIAEV**

Respondents.

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Docket No. 18-030-S

CEASE AND DESIST ORDER

The Commissioner of the Vermont Department of Financial Regulation (“Commissioner”), based on the Ex Parte Motion for Cease and Desist Order filed by the Securities Division and the attachment thereto, finds that grounds exist to order that the above-named Respondents immediately cease and desist from violating the Vermont Uniform Securities Act, 9 V.S.A. Chapter 150 (“the VUSA”), and hereby issues the following Findings of Fact, Conclusions of Law, Order and Notice of Right to Hearing.

FINDINGS OF FACT

Summary of Findings

LevelNet is currently engaged in a token offering, also known as an initial coin offering (“ICO”). LevelNet is marketing and selling tokens through its website and targeted internet advertising for the purported purpose of raising funds to develop and launch the LevelNet Network, a decentralized antivirus platform. LevelNet’s website describes two phases of the ICO and names two issuers of tokens, Level Capital LLC (issuer of “LVL tokens”) and LevelNet Foundation (issuer of “LVLS tokens”). In the first phase, described as a “noninvestment,” Level Capital will issue LVL tokens that will allow token owners to use LevelNet services and to sell tokens on cryptocurrency exchanges. The second phase is

described as an “investment” and involves the sale of LVLS tokens. The website states that purchasers of LVLS tokens will have shares in the LevelNet project and will share in the profits generated by a newly-created fund. In this phase, LVL tokens may be exchanged for LVLS tokens. While LevelNet claims that the offering is compliant with securities laws, in actuality, LevelNet is offering unregistered securities in violation of the Vermont Uniform Securities Act.

The Respondents

1. LevelNet is a corporation organized in California with a registered business address of 34 Peach Blossom, Irvine, California 92618. LevelNet’s website states that its United States office is located at 100 Spectrum Center Drive, Suite 900, Irvine, California 92618. The corporation is described as a software development business.
2. LevelNet is not registered to do business in Vermont with the Vermont Secretary of State’s Office and is not registered in any capacity with the Vermont Securities Division.
3. Paul Shkلياev is the Chief Executive Office and founder of LevelNet. His last known address is 34 Peach Blossom, Irvine, CA 92618.

The LevelNet Offering

4. LevelNet is currently conducting an Initial Coin Offering (“ICO”) and is in the “pre-sale” stage of the offering. Affidavit of Emily Kisicki at ¶ 3.
5. Shkلياev is the face of the offering. He appears in interviews and video broadcasts to promote the offering. LevelNet has a YouTube channel with information videos describing LevelNet, its projects, and the ICO. These videos typically feature Shkلياev. Affidavit of Emily Kisicki at ¶ 17.

6. LevelNet describes two phases of the ICO and names two issuers of tokens, Level Capital LLC (issuer of “LVL tokens”) and LevelNet Foundation (issuer of “LVLS tokens”).

These two entities do not appear to be formally organized or registered under state law.

7. The ICO’s stated purpose is “fundraising for the development and launch of LevelNet Network.” Affidavit of Emily Kisicki at ¶ 7.

8. LevelNet purports to be developing a decentralized antivirus platform to be shared by members of the LevelNet network. LevelNet’s advertising anticipates that it will have rapid success that will result in returns for project investors. LevelNet projects on its website that it “will reach one hundred million users by 2021, with over \$220 million in sales and over \$80 million of free cash flows for distribution to shareholders.” Affidavit of Emily Kisicki at ¶ 6.

9. On May 16, 2018, the “ICO details” page stated that \$777,132 was raised through 346 backers. On May 24th, 2018, the “ICO details” page stated that \$749,981 was raised through 359 backers. A “token sale bonus” structure is detailed on the website as: 10% for 0-\$1.5 million raised, 7% for 1.5-5m raised, 5% for 5-7 million raised, and 3% for 7-12 million raised. The “soft cap” is \$1.5 million, and the “hard cap” is \$12 million. Details are also given regarding the “Roadmap”: the LVL token sale began in Quarter 1 of 2018, “exchange of LVL stock tokens for LVLS tokens” will take place in Quarter 4 of 2018, and sales of LVLS tokens will take place in Quarter 1 of 2019. Affidavit of Emily Kisicki at ¶ 13.

The LevelNet Offering: Investment in a Common Enterprise

10. Phase One of the Offering. During the time that the ICO is being conducted, LevelNet is still in its development phase and is not currently operational. LevelNet, through Level Capital, will issue “LVL tokens”, that will be invested in “operations and infrastructure development for the final completion of LevelNet End-Point Security and its commercial

launch”. LVL tokens will be sold on cryproshare exchanges. Affidavit of Emily Kisicki at ¶¶ 7 and 8.

11. Phase Two of the Offering. LevelNet, through LevelNet Foundation, will create an investment fund and issue “LVLS tokens” to investors in the fund. These tokens represent shares in the LevelNet Network project and the investor will share in the funds profits. In this phase, LVL tokens may also be exchanged for LVLS tokens. Affidavit of Emily Kisicki at ¶ 9.

12. In both phases of the offering, purchasers of tokens are providing capital to LevelNet for investment in the LevelNet Network.

LevelNet Offering: Expectation of Profit

13. LevelNet makes representations to potential investors regarding the expectation of profit resulting from the investment in both phases of the ICO, to be gained through no effort of the investor. LevelNet represents that an investor may make money in a number of ways, including (1) through the increase in the value of it tokens; (2) as a result of the ability to exchange LVL tokens for LVLS tokens; and (3) by owning shares of LevelNet and participating in the profits of the LevelNet Network. Affidavit of Emily Kisicki at ¶ 15.

14. LevelNet attempts to distinguish the profitability of its offering from the myriad of other offerings by internet companies. LevelNet states that “unlike many internet companies” LevelNet projects will generate significant profits and investors will share in those profits in a relatively short time. LevelNet places a valuation of the company at between \$583,000,000 and \$1,268,000,000. LevelNet projects that at a \$1,000,000,000 valuation, investors in phase two may earn a return of 2062% over 4-5 years. Affidavit of Emily Kisicki at ¶ 16.

LevelNet Offering: Availability

15. LevelNet tokens are available for purchase by investors located in the United States, including in Vermont. LevelNet has made various statements regarding limits on U.S.-based buyers, including stating in its “ICO FAQs” that US citizens purchasing tokens for speculative purposes must invest through Startengine.com, a crowdfunding platform. No such Startengine offering currently exists. The “ICO FAQs” also purport to limit investment in LVLS tokens in the United States to “qualified investors.” Affidavit of Emily Kisicki ¶

10.

16. Despite claims regarding limits placed on US participants, once an investor expresses interest in the offering, LevelNet communication suggests that no such limits exist. One communication from LevelNet expressly stated that LevelNet may now accept investments from US residents, including the purchase of shares in LevelNet. Affidavit of Emily Kisicki at ¶ 11.

17. After Ms. Kisicki’s initial contact with LevelNet, a subsequent visit to LevelNet’s webpage revealed two pop ups: 1) advising that she could get a promo code for 1000 tokens sent to her via Facebook Messenger, and 2) advising that she could join LevelNet now and get “10% bonus for tokens before \$1.5m”. The homepage stated that the public pre-sale is live and ends in 15 days, 14 hours. Affidavit of Emily Kisicki at ¶ 12.

18. After viewing the LevelNet webpage, Ms. Kisicki was the target of internet advertising by LevelNet on other sites on multiple occasions. Affidavit of Emily Kisicki at ¶

18.

19. LevelNet does not appear eligible for a registration exemption as it did not notice file through the US Securities Exchange Commission’s Edgar Database.

20. By promoting its offering with no restrictions on its website, through targeted advertising, and elsewhere on the internet, LevelNet and Shkلياev are advertising, promoting, and offering securities to United States residents, including Vermont residents.

CONCLUSIONS OF LAW

21. Pursuant to § 5604(a)(1) of the VUSA, the Commissioner may issue a cease and desist order without a prior hearing if he determines that “a person has engaged, is engaging, or is about to engage in an act, practice, or course of business constituting a violation” of the VUSA.

22. Pursuant to § 5102(28)(D) of the VUSA, a security “includes an investment in a common enterprise with the expectation of profits to be derived primarily from the efforts of a person other than the investor.”

23. The LVL tokens offered by LevelNet are “securities” as defined in 9 V.S.A. § 5102(28)(D) of the VUSA.

24. LevelNet is offering securities in the form of LVL and LVLS tokens that are neither registered with the Division, nor “federal covered,” nor exempt from registration, in violation of 9 V.S.A. § 5301.

25. LevelNet is effecting or attempting to effect transactions in securities for the accounts of others or for its own account without registration in violation of 9 V.S.A. § 5401(a).

26. LevelNet has engaged in, is engaging in, or is about to engage in a violation of 9 V.S.A. § 5301, and LevelNet has engaged in, is engaging in, or is about to engage in a violation of 9 V.S.A. § 5401.

27. LevelNet has engaged in deceptive advertising in violation of V.S.R. § 3-1(e)(16) by making unfounded and unrealistic claims regarding expected project success and investor

returns, and by falsely asserting that the ICO does not represent a securities offering and is in compliance with securities laws.

28. Shklyev, by actively promoting the offering to Vermonters, is transacting business in the State without registration as an agent in violation of 9 V.S.A. § 5402(a).

29. Shklyev has engaged in, is engaging in, or is about to engage in a violation of 9 V.S.A. § 5402(a).

30. 9 V.S.A. § 5604 authorizes the Commissioner to issue an order directing a person to cease and desist from engaging in an act, practice, or course of business that constitutes a violation of the VUSA.

31. 9 V.S.A. § 5604 further authorizes the Commissioner, in a final order, to order a civil penalty; costs of investigation; restitution; and/or disgorgement of any sums obtained in violation of the VUSA.

STATEMENT OF PENALTY OR COSTS

The Commissioner will seek a penalty of up to \$15,000.00 for each violation and will seek actual costs of investigation.

ORDER

Now, therefore, pursuant to 9 V.S.A. § 5604(a)(1), section 13 of Department Regulation 82-1(Revised), the reasons set forth in the foregoing Findings of Fact and Conclusions of Law, and the considerations set forth in 9 V.S.A. § 5604(e), the Commissioner hereby ORDERS that:

1. LevelNet shall CEASE AND DESIST from transacting any business as an unregistered broker dealer in Vermont.

2. LevelNet shall CEASE AND DESIST from offering or selling unregistered securities in Vermont.

3. Shklyev shall CEASE AND DESIST from offering or selling unregistered securities in Vermont.

ENTERED at Montpelier, Vermont, this 25th day of May 2018.

A handwritten signature in black ink, appearing to read "Michael S. Pieciak", written over a horizontal line.

Michael S. Pieciak, Commissioner
Vermont Department of Financial Regulation

NOTICE OF RIGHT TO REQUEST HEARING

DOCKET NO. 18-030-S

LEVELNET and **PAUL SHKLIAEV** are hereby given NOTICE that a hearing will be afforded in this matter if requested in accordance with 9 V.S.A. SS 5604(b) and the Department of Financial Regulation's Regulation No. 82-1 (Revised) within thirty (30) days from the date of mailing of this Notice. Any such request must be delivered to the attention of the Docket Clerk, Nicholas Marineau, 89 Main Street, Montpelier, Vermont 05620-3101. The Department is located at 89 Main Street, City Center, Montpelier, Vermont. If a hearing is requested, one will be scheduled within 15 days after the Department's receipt of such a request.

Such hearing in this matter will be conducted in accordance with the contested case procedures prescribed in 3 V.S.A. § 809 and Department of Financial Regulation's Regulation No. 82-1 (Revised). All parties have the right to represent themselves or to be represented throughout the proceedings by legal counsel.

FAILURE TO REQUEST A HEARING IN A TIMELY MANNER OR TO ATTEND A HEARING THAT HAS BEEN SCHEDULED MAY RESULT IN THE ENTRY OF DEFAULT JUDGMENT AGAINST YOU FOR THE RELIEF REQUESTED BY THE DEPARTMENT.

STATE OF VERMONT
DEPARTMENT OF FINANCIAL REGULATION

IN THE MATTER OF:

LEVELNET INC. and
PAUL SHKLIAEV

Respondents.

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Docket No. 18-030-S

CERTIFICATE OF SERVICE

I hereby certify that on the 25th day of May 2018, I served the (1) Ex Parte Motion for Cease and Desist Order, (2) the Order to Cease and Desist, and (3) Notice of Right to Request Hearing in the above-captioned matter by causing the same to be mailed to Respondent's Registered Agent, Tatiana Abgarian at 27872 Colonial, Mission Viejo, California, 92692 and to Respondents by certified mail, return receipt requested at the following addresses:

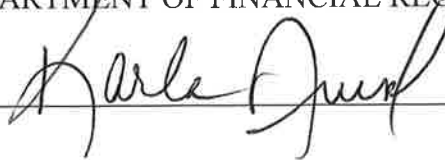
Paul Shkلياev, CEO
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Irvine, CA 92618

Paul Shkلياev, CEO
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Dated at Montpelier, Vermont this 25th day of May 2018.

DEPARTMENT OF FINANCIAL REGULATION

By: _____



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