

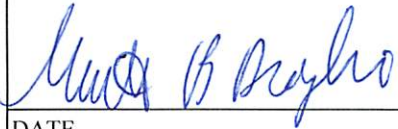
B104 (FORM 104) (08/07)

<b>ADVERSARY PROCEEDING COVER SHEET</b> (Instructions on Reverse)		<b>ADVERSARY PROCEEDING NUMBER</b> (Court Use Only)	
<b>PLAINTIFFS</b> Anthony Cellucci, Jamilly Lake, and Gerivaldo Pacheco - Putative Class Representatives and Those Similarly Situated		<b>DEFENDANTS</b> TelexFree, Inc., f/k/a Common Cents Communications, Inc., TelexFree, LLC, TelexFree Financial, Inc. et al.	
<b>ATTORNEYS (Firm Name, Address, and Telephone No.)</b> Law Offices of Frank N. Dardeno, LLP 424 Broadway, Somerville, MA 02145 Dropkin & Matza, LLP 424 Broadway, Somerville, MA 02145		<b>ATTORNEYS (If Known)</b>	
<b>PARTY (Check One Box Only)</b> <input type="checkbox"/> Debtor <input type="checkbox"/> U.S. Trustee/Bankruptcy Admin <input checked="" type="checkbox"/> Creditor <input type="checkbox"/> Other <input type="checkbox"/> Trustee		<b>PARTY (Check One Box Only)</b> <input type="checkbox"/> Debtor <input type="checkbox"/> U.S. Trustee/Bankruptcy Admin <input type="checkbox"/> Creditor <input checked="" type="checkbox"/> Other <input type="checkbox"/> Trustee	
<b>CAUSE OF ACTION (WRITE A BRIEF STATEMENT OF CAUSE OF ACTION, INCLUDING ALL U.S. STATUTES INVOLVED)</b> Violation of 15 U.S.C. ss. 78j, 78t, 77e, 77k, 77l; 15 U.S.C. 1125; 18 U.S.C. 1962; Mass. Gen. Laws. c. 110A, s. 410; Mass. Gen. Laws c. 93A, s. 2; negligence; fraud; negligent misrepresentation; fraudulent transfer; deepening insolvency; civil conspiracy; and others.			
<b>NATURE OF SUIT</b> (Number up to five (5) boxes starting with lead cause of action as 1, first alternative cause as 2, second alternative cause as 3, etc.)			
<b>FRBP 7001(1) - Recovery of Money/Property</b> <input type="checkbox"/> 11-Recovery of money/property - §542 turnover of property <input checked="" type="checkbox"/> 12-Recovery of money/property - §547 preference <input checked="" type="checkbox"/> 13-Recovery of money/property - §548 fraudulent transfer <input checked="" type="checkbox"/> 14-Recovery of money/property - other  <b>FRBP 7001(2) - Validity, Priority or Extent of Lien</b> <input type="checkbox"/> 21-Validity, priority or extent of lien or other interest in property  <b>FRBP 7001(3) - Approval of Sale of Property</b> <input type="checkbox"/> 31-Approval of sale of property of estate and of a co-owner - §363(h)  <b>FRBP 7001(4) - Objection/Revocation of Discharge</b> <input type="checkbox"/> 41-Objection / revocation of discharge - §727(c),(d),(e)  <b>FRBP 7001(5) - Revocation of Confirmation</b> <input type="checkbox"/> 51-Revocation of confirmation  <b>FRBP 7001(6) - Dischargeability</b> <input type="checkbox"/> 66-Dischargeability - §523(a)(1),(14),(14A) priority tax claims <input type="checkbox"/> 62-Dischargeability - §523(a)(2), false pretenses, false representation, actual fraud <input checked="" type="checkbox"/> 67-Dischargeability - §523(a)(4), fraud as fiduciary, embezzlement, larceny (continued next column)		<b>FRBP 7001(6) - Dischargeability (continued)</b> <input type="checkbox"/> 61-Dischargeability - §523(a)(5), domestic support <input type="checkbox"/> 68-Dischargeability - §523(a)(6), willful and malicious injury <input type="checkbox"/> 63-Dischargeability - §523(a)(8), student loan <input type="checkbox"/> 64-Dischargeability - §523(a)(15), divorce or separation obligation (other than domestic support) <input type="checkbox"/> 65-Dischargeability - other  <b>FRBP 7001(7) - Injunctive Relief</b> <input type="checkbox"/> 71-Injunctive relief - imposition of stay <input type="checkbox"/> 72-Injunctive relief - other  <b>FRBP 7001(8) Subordination of Claim or Interest</b> <input type="checkbox"/> 81-Subordination of claim or interest  <b>FRBP 7001(9) Declaratory Judgment</b> <input type="checkbox"/> 91-Declaratory judgment  <b>FRBP 7001(10) Determination of Removed Action</b> <input type="checkbox"/> 01-Determination of removed claim or cause  <b>Other</b> <input type="checkbox"/> SS-SIPA Case - 15 U.S.C. §§78aaa <i>et seq.</i> <input type="checkbox"/> 02-Other (e.g. other actions that would have been brought in state court if unrelated to bankruptcy case)	
<input checked="" type="checkbox"/> Check if this case involves a substantive issue of state law		<input checked="" type="checkbox"/> Check if this is asserted to be a class action under FRCP 23	
<input checked="" type="checkbox"/> Check if a jury trial is demanded in complaint		Demand \$ 300,000,000 +	
Other Relief Sought			



144098714051900000000010

FORM 104 (08/07), Page 2

BANKRUPTCY CASE IN WHICH THIS ADVERSARY PROCEEDING ARISES		
NAME OF DEBTOR TelexFree, LLC; TelexFree, Inc.; TelexFree Financial, Inc.		BANKRUPTCY CASE NO. 14-40987
DISTRICT IN WHICH CASE IS PENDING Massachusetts	DIVISIONAL OFFICE Central	NAME OF JUDGE Melvin S. Hoffman
RELATED ADVERSARY PROCEEDING (IF ANY)		
PLAINTIFF	DEFENDANT	ADVERSARY PROCEEDING NO.
DISTRICT IN WHICH ADVERSARY IS PENDING	DIVISIONAL OFFICE	NAME OF JUDGE
SIGNATURE OF ATTORNEY (OR PLAINTIFF) 		
DATE 5/15/2014	PRINT NAME OF ATTORNEY (OR PLAINTIFF) Martin B. Dropkin, Esq.	

Print Form

### INSTRUCTIONS

The filing of a bankruptcy case creates an "estate" under the jurisdiction of the bankruptcy court which consists of all of the property of the debtor, wherever that property is located. Because the bankruptcy estate is so extensive and the jurisdiction of the court so broad, there may be lawsuits over the property or property rights of the estate. There also may be lawsuits concerning the debtor's discharge. If such a lawsuit is filed in a bankruptcy court, it is called an adversary proceeding.

A party filing an adversary proceeding must also complete and file Form 104, the Adversary Proceeding Cover Sheet, unless the party files the adversary proceeding electronically through the court's Case Management/Electronic Case Filing system (CM/ECF). (CM/ECF captures the information on Form 104 as part of the filing process.) When completed, the cover sheet summarizes basic information on the adversary proceeding. The clerk of court needs the information to process the adversary proceeding and prepare required statistical reports on court activity.

The cover sheet and the information contained on it do not replace or supplement the filing and service of pleadings or other papers as required by law, the Bankruptcy Rules, or the local rules of court. The cover sheet, which is largely self-explanatory, must be completed by the plaintiff's attorney (or by the plaintiff if the plaintiff is not represented by an attorney). A separate cover sheet must be submitted to the clerk for each complaint filed.

**Plaintiffs and Defendants.** Give the names of the plaintiffs and the defendants exactly as they appear on the complaint. Addresses should be listed for all Plaintiffs and Defendants.

**Attorneys.** Give the names and addresses of the attorneys, if known.

**Party.** Check the most appropriate box in the first column for the plaintiffs and the second column for the defendants.

**Demand.** Enter the dollar amount being demanded in the complaint.

**Signature.** This cover sheet must be signed by the attorney of record in the box on the second page of the form. If the plaintiff is represented by a law firm, a member of the firm must sign. If the plaintiff is pro se, that is, not represented by an attorney, the plaintiff must sign.

**UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MASSACHUSETTS**

In re:

TELEXFREE, LLC,

Debtor.

Case No. 4:14-BK-40987  
Chapter 11

---

ANTHONY CELLUCCI, JAMILLY  
LAKE, and GERIVALDO PACHECO—  
PUTATIVE CLASS REPRESENTATIVES  
AND THOSE SIMILARLY SITUATED,

Plaintiff,

v.

TELEXFREE, INC., f/k/a COMMON  
CENTS COMMUNICATIONS, INC.;  
TELEXFREE, LLC; TELEXFREE  
FINANCIAL, INC.; TELEXELECTRIC, LLLP;  
TELEX MOBILE, HOLDINGS, INC.; JAMES  
M. MERRILL; CARLOS N. WANZELER; ;  
STEVEN M. LABRIOLA; JOSEPH H. CRAFT,  
a/k/a JOE H. CRAFT; CRAFT FINANCIAL  
SOLUTIONS, LLC; CARLOS COSTA;  
SANDERLEY RODRIGUES DE  
VASCONCELOS; WWW GLOBAL  
BUSINESS, INC.; SANTIAGO DE LA ROSA;  
RANDY N. CROSBY; FAITH R. SLOAN;  
GERALD P. NEHRA, individually and doing  
business as LAW OFFICES OF NERHA AND  
WAAK; GERALD P. NEHRA ATTORNEY AT  
LAW. PLLC; RICHARD W. WAAK.

Adv. No.

**CLASS ACTION COMPLAINT  
FOR, *INTER ALIA*, VIOLATIONS  
OF STATE AND FEDERAL  
SECURITIES LAWS**

**DEMAND FOR TRIAL BY JURY**

individually and doing business as LAW OFFICES OF NERHA AND WAAK; RICHARD W. WAAK, ATTORNEY AT LAW, PLLC; BANK OF AMERICA CORPORATION, BANK OF AMERICA, NA; TD BANK, NA; CITIZENS FINANCIAL GROUP, INC.; CITIZENS BANK OF MASSACHUSETTS; FIDELITY CO-OPERATIVE BANK, doing business as FIDELITY BANK; MIDDLESEX SAVINGS BANK; WELLS FARGO & COMPANY; WELLS FARGO BANK, NA; FMR, LLC, also known as FIDELITY INVESTMENTS; WADDELL & REED FINANCIAL, INC.; WADDELL & REED, INC.; GLOBAL PAYROLL GATEWAY INC.; INTERNATIONAL PAYOUT SYSTEMS, INC.; PROPAY, INC., doing business as PROPAY.COM; BASE COMMERCE, LLC, doing business as PHOENIX PAYMENTS; VANTAGE PAYMENTS, LLC; DOE INSIDER PROMOTERS; DOE PROFESSIONAL SERVICES PROVIDERS; DOE BANKS; DOE INVESTMENT SERVICES PROVIDERS; DOE PAYMENT PROCESSORS; and PARALEGAL DOE,

Defendants.

**CLASS ACTION COMPLAINT FOR, INTER ALIA, VIOLATIONS OF STATE AND FEDERAL SECURITIES LAWS**

Plaintiffs, Putative Class Representatives ANTHONY CELLUCCI, JAMILLY LAKE and GERIVALDO PACHECO, on behalf of themselves and all others similarly situated (hereafter "Plaintiffs") bring this class action against Defendants TELEXFREE, INC., f/k/a COMMON CENTS COMMUNICATIONS, INC., TELEXFREE, LLC, TELEXFREE FINANCIAL, INC., TELEXELECTRIC, LLLP, TELEX MOBILE, HOLDINGS, INC., (collectively referred to herein as "TelexFree") and the other named Defendants and Doe Defendants.

**INTRODUCTION**

1. Plaintiffs seek compensation for economic loss sustained as a result of Defendants' conduct in carrying out an unlawful Ponzi pyramid scheme that included, *inter alia*,



Defendants' fraudulent unregistered offer and sale of securities in the form of unregistered investment contracts constituting securities.

2. During all times relevant to this complaint, TelexFree uniformly held itself out as a "multi-level marketing" company systematically selling local and international telephone service plans that use "voice over internet protocol" ("VoIP") technology through so-called "Promoters."<sup>1</sup>

3. Upon information and belief, the TelexFree VoIP was not patented or proprietary.

4. The TelexFree VoIP offered nothing more than what was otherwise available for free through other Internet providers such as Skype and Google Voice.

5. In reality, TelexFree's offer and sale of investment contracts constituted a pyramid-type Ponzi scheme (the "Pyramid Ponzi Scheme").

6. To carry out their unlawful enterprise, TelexFree and their officers, agents, servants and employees sold fraudulent unregistered securities to the Putative Class Representatives and to the members of the class the Representatives seek to represent.

7. TelexFree sold unregistered securities in twenty-one states and internationally from its offices in Marlborough, Massachusetts.<sup>2</sup>

8. TelexFree also maintained a post office box in an unnamed mini mart and smoke shop located in a strip mall in Las Vegas, Nevada.

9. TelexFree maintained no sales force or sales support in Nevada at any time relevant to the complaint.

---

<sup>1</sup> Merriam-Webster's Dictionary defines a "promoter" as a person or organization that helps something to happen, develop, or increase.

<sup>2</sup> Since all sales were processed through their Massachusetts office, Massachusetts state law applies including MGL 110A, Sec. 410, MGL. 110A, Sec. 410(b) and MGL 93A.

10. The contract under which TelexFree claims to invoke the application of Nevada law is illegal and void as a matter of law.

11. TelexFree's unregistered securities were deceptively and uniformly identified to members of the putative class as "memberships."

12. TelexFree guaranteed returns of 200% or more per year.

13. In exchange for copying and placing duplicative and pre-written TelexFree ads on internet sites – a passive process that alone generates no revenue and requires essentially no effort on the part of the investors – and for recruiting other investors to pay the membership fees, TelexFree falsely held out that its investors, or "Promoters," could receive significant returns of over 200% annually.

14. TelexFree uniformly and systematically did not require Promoters to sell its VoIP product in order to qualify for payments prior to March 9, 2014. TelexFree's scheme constitutes an unlawful pyramid scheme since the proceeds from the sale of TelexFree's VoIP product alone could not sustain the massive pay structure.

15. To keep TelexFree's Pyramid Ponzi Scheme liquid, a constant influx of new participants was required.

16. On June 19, 2013, the Brazilian Court in Acre issued an injunction putting "a stop to TelexFree's business operations, including the registration of new affiliate investors, acceptance of new investments and paying any returns owed on existing affiliate investments."<sup>3</sup>

At all times material herein, TelexFree and its Officers James M. Merrill, Carlos N. Wanzeler, Steven M. Labriola, Carlos Costa, Joseph H. Craft, a/k/a Joe H. Craft (collectively, "Defendant Officers"), Sanderley Rodrigues de Vasconcelos; WWW Global Business, Inc.; Santiago de La Rosa; Randy N. Crosby; Faith R. Sloan (Collectively sometimes referred to as

---

<sup>3</sup> Brazilian Court Suspends TelexFree's Operations, Behind MLM (June 20, 2013), <http://behindmlm.com/companies/telexfree/brazilian-court-suspends-telexfree-operations/>.

the “Named Insider Promoters”) the Doe Insider Promoters, TelexFree’s Retained Licensed Professionals<sup>4</sup>, Paralegal Doe, Banking Institution Defendants<sup>5</sup>, Investment Service Provider Defendants<sup>6</sup> and Payment Processing Services Companies<sup>7</sup> knew that the Pyramid Ponzi Scheme was not sustainable, and that the representations on TelexFree’s website and in its marketing materials were false, unfair, and deceptive including, but not limited to, those concerning the guaranteed returns.

17. Moreover, at all times material herein, TelexFree and its Defendant Officers, the Named Insider Promoters, the Doe Insider Promoters, Retained Licensed Professionals, Paralegal Doe, Banking Institution Defendants, Investment Service Provider Defendants and Payment Processing Services Companies knew that TelexFree was selling unregistered securities to the members of the putative classes.

18. Moreover, after the foregoing Defendant Officers, the named Insider Promoters, Doe Insider Promoters, Retained Licensed Professionals, Paralegal Doe, Banking Institution Defendants, Investment Service Provider Defendants and Payment Processing Services Companies knew that TelexFree was an illegal Pyramid Ponzi scheme which involved the illegal sale of securities, they continued to aid, abet and further such illegal activities.

---

<sup>4</sup> Attorneys Gerald P Nehra, Esq, individually and doing business as the Law Offices of Nehra and Waak; Gerald P Nehra, Attorney at Law, PLLC; Richard W. Waak individually and doing business as the Law Offices of Nehra and Waak; Richard W. Waak Attorney at Law, PLLC; Joe H. Craft individually and d/b/a as Certified Public Accountant; Craft Financial Solutions, LLC as well as the Doe Professional Services Providers, are sometimes referred to herein as “Retained Licensed Professionals” or “RLP Defendants.”

<sup>5</sup> Bank Of America Corporation, Bank Of America, N.A., TD Bank, N.A., Citizens Financial Group, Inc., Citizens Bank of Massachusetts, Fidelity Co-Operative Bank, Middlesex Savings Bank, Wells Fargo & Company, Wells Fargo Bank, N.A., and the Doe Banks are sometimes referred to herein as the “Banking Institution Defendants.”

<sup>6</sup> FMR, LLC, also known as Fidelity Investments, Waddell & Reed Financial, Inc., Waddell & Reed, Inc., and the Doe Investment Services Providers are sometimes referred to herein as the “Investment Services Provider Defendants.”

<sup>7</sup> Global Payroll Gateway Inc., International Payout Systems, Inc., Propay, Inc., doing business as Propay.com, Base Commerce, LLC, doing business as Phoenix Payments, and Vantage Payments, LLC are referred to herein as “Payment Process Services Companies” or “PPSC Defendants.”

19. Despite the foregoing knowledge, TelexFree and the other Defendants continued to participate in the attraction and processing of new investors, continued to allow payments to process through TelexFree's accounts, allowed TelexFree to continue to illegally sell securities and further its illegal Pyramid Ponzi Scheme, and otherwise continued to further TelexFree's illegal activities.

20. On April 14, 2014, the Defendants TelexFree, Inc., TelexFree, LLC and TelexFree Financial, Inc. abruptly sought bankruptcy protection in Nevada under Chapter 11, admitting that they could not and cannot meet their obligations from VoIP revenues and seeking authority to reject all their current obligations to Promoters.

21. At all material times herein, Defendants have violated, *inter alia*, the antifraud and securities registration provisions of the federal and state securities laws.

22. At all material times herein and from at least in or about January 2012, TelexFree and the other Defendants unlawfully, willfully and knowingly used the means and instrumentalities of interstate commerce and the mails, directly and indirectly, in connection with the purchase and sale of unregistered securities.

23. TelexFree and the other Defendants used and employed manipulative and deceptive devices and contrivances in violation of MGL 110A, Sec. 410; used means and instrumentalities, directly and indirectly, in connection with the purchase and sale of unregistered securities; and used and employed manipulative and deceptive devices and contrivances in violation of, *inter alia*, the Massachusetts Uniform Securities Act, MGL c. 110A, Section 410b, MGL 110A, Sec. 410(b) and MGL 93A.

24. TelexFree and the other Defendants also violated Title 17, Code of Federal Regulations, Section 240.10b-5 by (a) employing devices, schemes, and artifices to defraud; (b) making untrue statements of material facts and omitting to state material facts necessary in order

to make the statements made, in the light of the circumstances under which they were made, not misleading, and (c) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon persons.

25. TelexFree and the other Defendants willfully or knowingly established a Pyramid-type Ponzi scheme by paying certain investors purported returns on investment.

26. Making use of this sophisticated pyramid scheme, TelexFree defrauded the members of the putative class out of funds exceeding \$300,000,000.00 dollars in just a few short years.

27. Certain Defendants share joint and severable liability, including the named Insider Promoters, Doe Inside Promoters, the Retained Licensed Professionals (including attorneys and Certified Public Accountants), Banking Institution Defendants, Investment Services Provider Defendants, and Payment Processing Services Companies, having aided and abetted TelexFree's Pyramid Ponzi Scheme by providing TelexFree with legal and financial advice and assistance during the course of the fraud, despite knowledge of the fraudulent nature of TelexFree's operation.

28. The Banking Institution Defendants, Investment Services Provider Defendants, and Payment Processing Services Companies and Banking also share joint and several liability having aided and abetted the fraudulent and illegal activity by providing financial and payment processing services, while also having knowledge of TelexFree's fraud.

29. Plaintiffs also make the following allegations upon information and belief and the investigation of their counsel, except as to their own actions and the facts that are a matter of public record:

#### **JURISDICTION AND VENUE**



30. This Court has jurisdiction as to the claims for relief sought herein under 28 U.S.C. §§ 157 and 1334, and Rule 9029-3 of the Local Rules of Practice for the United States District Court for the Commonwealth of Massachusetts.

31. Venue is proper pursuant to 28 U.S.C. § 1409(a).

32. Certain of the claims for relief set forth herein are core proceedings pursuant to 28 U.S.C. § 157(b)(2)(A) and (O). To the extent the claims for relief set forth herein are not core proceedings, Plaintiffs do not consent to entry of final judgment by the bankruptcy court.

33. The District Court has original jurisdiction pursuant to 28 U.S.C. § 1332(d)(2). In the aggregate, Plaintiffs' claims and the claims of the other members of the Class exceed \$5,000,000.00 exclusive of interest and costs, and there are numerous class members who are citizens of states other than TelexFree, Inc's state of citizenship, which is Massachusetts.

34. James Merrill, Carlos Wanzeler, Steven Labriola, Carlos Costa, Joseph H. Craft and other Defendants and others identified as Does conducted the unlawful business of TelexFree referenced and detailed in this complaint in Massachusetts during all material relevant times herein beginning on February 15, 2012 through approximately April, 2014.

35. James Merrill, Carlos Wanzeler, Steven Labriola, Carlos Costa, Joseph H. Craft and other Defendants and others identified as Does maintained addresses for the unlawful business of TelexFree, referenced and detailed in this complaint in the Marlborough, Massachusetts office during the period between February 15, 2012 through approximately April, 2014.

36. The District Court also has jurisdiction over this action pursuant to Sections 20(b), 20(d)(1) and 22(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77t(b), 77t(d)(1) & 77v(a)], Sections 21(d)(1), 21(d)(3)(A), 21(e) and 27 of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78u(d)(1), 78u(d)(3)(A), 78u(e) and 78aa], Section 1121

of the Lanham Act [15 U.S.C. § 1121], and Section 1965 of the Racketeer Influenced and Corrupt Organizations Act [18 U.S.C. § 1965]. Defendants have, directly or indirectly, made use of the means of instrumentalities of interstate commerce and of the mails in connection with the transactions, acts, practices, and courses of business alleged in this complaint.

37. Venue is also proper pursuant to 28 U.S.D. § 1391 since:

- a. TelexFree, Inc. and certain other Defendants reside in this district;
- b. Acts and transactions giving rise to this action occurred in this district;
- c. TelexFree, LLC is subject to personal jurisdiction in this district;
- d. On April 13, 2014, TelexFree, LLC, TelexFree, Inc. and TelexFree Financial, Inc. sought bankruptcy protection in Nevada (See United States Bankruptcy Court, District of Nevada, Case No.: BK-S-14-12524-ABL).
- e. On May 6, 2014 the United States Bankruptcy Court for the District of Nevada transferred the foregoing bankruptcy action to the District of Massachusetts, Central Division.

38. Venue is also proper in this district pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act, 15 U.S.C. § 78aa, because certain of the transactions, acts, practices, and courses of conduct constituting violations of the federal securities laws occurred within this district. Defendants transacted business and offered and sold the securities that are the subject of this action to investors in this district.

39. Furthermore, venue is proper under Section 1965 of the Racketeer Influenced and Corrupt Organizations Act [18 U.S.C. § 1965], as the Defendants reside, have agents, or otherwise transact business material to this Complaint in this district.

#### **THE PARTIES**

40. Plaintiff ANTHONY CELLUCCI (hereinafter sometimes referred to as “Cellucci”), is an individual who resides in Massachusetts. Cellucci, like many other victims of TelexFree’s Pyramid Ponzi Scheme, tendered cash in exchange for a membership in TelexFree (a “TelexFree Membership”) and its promised pre-March 9, 2014 return in investment (the Pre-March 9, 2014 Return on Investment”).

41. Plaintiff JAMILLY LAKE (hereinafter sometimes referred to as “Lake”) is an individual who resides in Massachusetts. Lake, like many other victims of TelexFree’s Pyramid Ponzi Scheme, tendered cash in exchange for a TelexFree Membership and its promised Pre-March 9, 2014 -Return in Investment (the Pre-March 9, 2014 Return on Investment”).

42. Plaintiff GERIVALDO PACHECO (hereinafter sometimes referred to as “Pacheco”) is an individual who resides in Massachusetts. Lake, like many other victims of TelexFree’s Pyramid Ponzi Scheme, tendered cash in exchange for a TelexFree Membership and its promised Pre-March 9, 2014 -Return in Investment (the Pre-March 9, 2014 Return on Investment”).

43. Defendant TELEXFREE, INC. is a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts, having a last known principal place of business at 225 Cedar Hill Street, Suite 200, in Marlborough, County of Middlesex, Commonwealth of Massachusetts 01752.<sup>8</sup>

44. TelexFree, Inc. was formerly known as COMMON CENTS COMMUNICATIONS, INC.

---

<sup>8</sup> See Office of the Secretary of the Commonwealth of Mass., Corporations Div., Corporate Summary for TelexFree, Inc., attached hereto as Exhibit 1.

45. Defendant TELEXFREE, LLC is a limited liability company duly organized and existing under the laws of the state of Nevada, having a purported place of business at 4705 S. Durango Drive, #100-J51 (a post office box), Las Vegas, Nevada 89147.<sup>9</sup>

46. Defendant Paralegal Doe served as TelexFree, LLC's agent, servant or employee at all times relevant to this complaint.

47. At all times material herein, TelexFree, LLC also maintained offices in the Commonwealth of Massachusetts at 225 Cedar Hill Street, Suite 200, in Marlborough, County of Middlesex, Commonwealth of Massachusetts 01752 between 2012 and this date.

48. Defendant TELEXFREE FINANCIAL, INC. (hereinafter sometimes referred to as "TelexFree Financial") is a corporation duly organized and existing under the laws of the State of Florida, having its last known principal place of business at 2321 NW 37<sup>th</sup> Avenue, in Coconut Creek, Florida 33063. TelexFree Financial is a wholly owned subsidiary of TelexFree, LLC.<sup>10</sup>

49. Defendant TELEXELECTRIC, LLLP (hereinafter sometimes referred to as "TelexElectric") is a limited liability limited partnership duly organized and existing under the laws of the State of Nevada, and having its registered agent as BWFC Processing Center, LLC, 3960 Howard Hughes Parkway, Suite 500, Las Vegas, Nevada 89169.<sup>11</sup>

50. Defendant TELEX MOBILE, HOLDINGS, INC. (hereinafter sometimes referred to as "Telex Mobile") is a corporation duly organized and existing under the laws of the State of

---

<sup>9</sup> See Office of the Secretary of the Commonwealth of Mass., Corporations Div., Corporate Summary for TelexFree, LLC, attached hereto as Exhibit 2.

<sup>10</sup> See Florida Department of State,, Div. of Corporations, Corporate Summary for TelexFree Financial, Inc., attached hereto as Exhibit 3.

<sup>11</sup> See Nevada Corporate Summary for TelexElectric, LLLP, attached hereto as Exhibit 4.

Nevada, and having its registered agent as BWFC Processing Center, LLC, 3960 Howard Hughes Parkway, Suite 500, Las Vegas, Nevada 89169.<sup>12</sup>

51. Defendant JAMES M. MERRILL (hereinafter sometimes referred to as "Merrill") is an individual now or formerly of 1 Coburn Drive in Ashland, County of Middlesex, Commonwealth of Massachusetts 01721.

52. At all times material herein, Co-Defendant Merrill was President, Secretary, and Director of TelexFree, Inc.

53. At all times material herein, Co-Defendant, Merrill was a Manager of TelexFree, LLC, and was listed with the Massachusetts Secretary of State Corporations Division as an authorized person to execute, acknowledge, deliver, and record any recordable instrument purporting to affect an interest in real property.

54. At all times material herein, Co-Defendant Merrill, was President, Secretary, and Director of TelexFree Financial.

55. Defendant CARLOS N. WANZELER (hereinafter sometimes referred to as "Wanzeler") is an individual now or formerly of 373 Howard Street, in Northborough, County of Worcester, Commonwealth of Massachusetts 01532.

56. At all times material herein, Co-Defendant Wanzeler was Treasurer and Director of TelexFree, Inc.

57. At all times material herein, Co-Defendant Wanzeler was a Manager of TelexFree, LLC.

58. At all times material herein, Co-Defendant Wanzeler was Vice-President, Treasurer, and Director of TelexFree Financial, and was listed with the Massachusetts Secretary

---

<sup>12</sup> See Nevada Corporate Summary for Telex Mobile Holdings, Inc., attached hereto as Exhibit 5.



of State Corporations Division as an authorized person to execute, acknowledge, deliver, and record any recordable instrument purporting to affect an interest in real property.

59. Defendant STEVEN M. LABRIOLA (hereinafter sometimes referred to as "Labriola") is an individual now or formerly of 21 Kiwanis Beach Road, in Upton, County of Worcester, Commonwealth of Massachusetts 01568.

60. The Articles of Incorporation for Common Cents Communications, Inc. filed with the Massachusetts Secretary of State's Office identify Labriola as a Director of the Corporation.

61. Defendant Labriola functions as the international sales director of TelexFree.

62. Defendant JOSEPH H. CRAFT, also known as JOE H. CRAFT, (hereinafter sometimes referred to as "Craft") is an individual now or formerly of 825 E. Main Street in Boonville, Indiana 47601-1885.

63. Defendant Craft is a Certified Public Accountant and maintains offices in Indiana and Kentucky under the name and style Joe H. Craft, CPA/PFS, CFP. In Indiana, he maintains offices at 825 E. Main Street in Boonville, Indiana 47601-1885.

64. At all material times herein, Defendant Craft served as the Chief Financial Officer of Telex Free, Inc. and TelexFree, LLC, and was responsible for preparing or approving their financial statements.

65. More particularly, according to TelexFree's Chief Restructuring Officer, William H. Runge, on or before April 2012, Craft was retained to serve as TelexFree's accountant and was responsible for preparing its financial statements and taxes.<sup>13</sup>

66. Craft was further hired to serve as TelexFree, LLC's Chief Financial Officer on or before December 2013.<sup>14</sup>

---

<sup>13</sup> See Omnibus Declaration of William H. Runge, Case 14-1552-abl, Doc. 13, par 31, attached herewith as Exhibit 6.

<sup>14</sup> *Id.*

67. Defendant CRAFT FINANCIAL SOLUTIONS, LLC (hereinafter sometimes referred to as "Craft Financial") is a limited liability company duly organized and existing under the laws of the state of Indiana, having a principal place of business at 825 E. Main Street in Boonville, Indiana 47601-1885.

68. Defendant Craft Financial is engaged in the business of providing accounting services and financial advice.

69. Defendant Craft is the sole member, manager, and registered agent for the Defendant Craft Financial, LLC.

70. Defendant CARLOS COSTA, (hereinafter sometimes referred to as "Costa") is an individual now or formerly of 44A McClintock Avenue, Unit A, in Worcester, County of Worcester, Commonwealth of Massachusetts 01604.

71. At all times material herein, Co-Defendant Costa was listed as Manager of TelexFree, LLC with the Massachusetts Secretary of State Corporations Division.

72. The Defendant, SANDERLEY RODRIGUES DE VASCONCELOS, (hereinafter sometimes referred to as "Rodrigues"), is an individual now or formerly of, 100 Stockton Street, Apt. 49, in Chelsea, County of Suffolk, Commonwealth of Massachusetts 02150.

73. The Defendant, WWW GLOBAL BUSINESS, INC. (hereinafter sometimes referred to as "WWW Global Business"), is a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts, having a principal place of business at 189 Squire Road, Suite 40, in Revere, County of Suffolk, Commonwealth of Massachusetts.

74. The Defendant, Rodrigues, organized WWW Global Business on or about February 7, 2013 for the purpose of marketing and selling TelexFree Investments.

75. At no time has the Defendant, Rodrigues, ever registered with the Commonwealth of Massachusetts as a broker or dealer of securities.

76. The Defendant, Rodrigues, serves as the sole Officer, Director, and Registered Agent of WWW Global Business.

77. The Defendant, Rodrigues, had previously been charged by the United States Securities and Exchange Commission with operating a fraudulent Pyramid Scheme under the name of Universo FoneClub Corporation, another Massachusetts corporation formed by Rodrigues, in which he acted as Officer and Director.

78. The Defendant, Rodrigues, settled these charges in 2007. As a condition of this settlement he was permanently enjoined from violating Section 10(b) of the Exchange Act and Rule 10b-5, and Sections 5(a), 5(c) and 17(a) of the Securities Act. He was further disgorged of about \$1.8 Million in ill-gotten gains.

79. The Defendant, SANTIAGO DE LA ROSA (hereinafter sometimes referred to as "De La Rosa"), is an individual now or formerly of 189 Beacon Hill Avenue, Unit 2, in Lynn, County of Essex, Commonwealth of Massachusetts 01902.

80. The Defendant, De La Rosa, has also appeared in videos promoting TelexFree which were posted on the internet.

81. The Defendant, De La Rosa, is one of TelexFree's most successful Promoters, and has recruited numerous other Promoters/Investors for TelexFree within the Dominican Community in Massachusetts and elsewhere.

82. The Defendant, RANDY N. CROSBY (hereinafter sometimes referred to as "Crosby"), is an individual now or formerly of 30 Club Court, in Alpharetta, Georgia 30005.

83. The Defendant, Crosby, has also appeared in videos promoting TelexFree which were posted on the internet.

84. The Defendant, Crosby, is one of TelexFree's most successful Promoters, and has recruited numerous other Promoters/Investors for TelexFree, especially through a website known as "everybodygetspaidweekly.biz".

85. The Defendant, FAITH R. SLOAN (hereinafter sometimes referred to as "Sloan"), is an individual now or formerly of 515 E. End Avenue, Unit 105, in Calumet City, Illinois 60409.

86. The Defendant, Sloan, has also appeared in videos promoting TelexFree which were posted on the internet.

87. The Defendant, Sloan, is one of TelexFree's most successful Promoters, and has recruited numerous other Promoters/Investors for TelexFree, especially through a website known as "telexfreepower.com".

88. Defendant GERALD P. NEHRA (hereinafter sometimes referred to as "Nehra") is an individual now or formerly of Muskegon, Michigan.

89. Defendant Nehra maintains a second place of abode at 2149 Tall Oak Court, Sarasota, Florida 34232

90. Defendant Nehra is an attorney duly licensed to practice law in the State of Michigan with offices at 1710 Beach Street in Muskegon, Michigan 49441.

91. Defendant GERALD P. NEHRA, ATTORNEY AT LAW, PLLC, is a professional limited liability company engaged in the practice of law and duly organized and existing under the laws of the state of Michigan, having a principal place of business at 1710 Beach Street in Muskegon, Michigan 49441.

92. Defendant Nehra is the sole member, manager and registered agent for the Defendant Gerald P. Nehra, Attorney at Law, PLLC.

93. Defendant RICHARD W. WAAK (hereinafter sometimes referred to as "Waak") is an individual now or formerly of Muskegon, Michigan.

94. Defendant Waak is an attorney duly licensed to practice law in the State of Michigan with offices at 11300 East Shore Drive, Delton, Michigan 49046.

95. At all times material herein, Defendant Nehra was engaged in the practice of law with Co-Defendant Richard W. Waak, under the name LAW OFFICES OF NERHA AND WAAK.

96. Defendant LAW OFFICES OF NERHA AND WAAK had offices at 1710 Beach Street, Muskegon, Michigan 49441 and 11300 East Shore Drive, Delton, Michigan 49046.

97. At all times material herein, Defendant Waak was engaged in the practice of law with Co-Defendant Nehra, under the name Law Offices of Nehra and Walk, with primary offices at 11300 East Shore Drive, Delton, Michigan 49046, and secondary offices at 1710 Beach Street, in Muskegon, Michigan 49441.

98. Defendant Waak is the "*Principal Attorney*"<sup>15</sup> of the Law Offices of Nehra and Waak.

99. Defendant RICHARD W. WAAK, ATTORNEY AT LAW, PLLC, is a professional limited liability company engaged in the practice of law and duly organized and existing under the laws of the state of Michigan, having a principal place of business at 11300 East Shore Drive, Delton, Michigan 49046.

100. Defendant Waak is the sole member, manager and registered agent of Defendant Richard W. Waak, Attorney at Law, PLLC.

101. The Law Offices of Nehra and Walk is a general partnership between Defendants Nehra, Waak, Gerald P. Nehra, Attorney at Law, PLLC, and Richard W. Walk, Attorney at Law, PLLC.

---

<sup>15</sup> Law Offices of Nehra and Waak website, <http://www.mlmatty.com/2014/02/firm-transition-news-gerry-has-not-retired/>



102. Defendant TD BANK, N.A. (hereinafter sometimes referred to as “TD Bank”) is a national banking institution in the United States chartered and supervised by the federal Office of the Comptroller of the Currency.

103. TD Bank has a principal place of business at 15 Broad Street in Boston, County of Suffolk, Commonwealth of Massachusetts 02109.

104. At all times material herein, Defendant TD Bank provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

105. The Defendant, BANK OF AMERICA CORPORATION (hereinafter sometimes referred to as “Bank of America”), is a publicly traded corporation duly organized and existing under the laws of the State of Delaware. Bank of America is a national banking institution in the United States chartered and supervised by the federal Office of the Comptroller of the Currency, with offices at 175 Federal Street, in Boston, County of Suffolk, Commonwealth of Massachusetts 02110.

106. At all times material herein, the Defendant, Bank of America, provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

107. The Defendant, BANK OF AMERICA, N.A., is a national banking institution in the United States chartered and supervised by the federal Office of the Comptroller of the Currency, with a principal place of business in Charlotte, North Carolina. Bank of America N.A. is a subsidiary of Bank of America Corporation, and conducts business in the Commonwealth of Massachusetts at, *inter alia*, 100 Federal Street, in Boston, County of Suffolk, Commonwealth of Massachusetts 02110.

108. At all times material herein, the Defendant, Bank of America, N.A., provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

109. Defendant CITIZENS FINANCIAL GROUP, INC. (hereinafter sometimes referred to as "Citizens Financial") is a corporation duly organized and existing under the laws of the State of Delaware, having its principal offices in Providence, Rhode Island.

110. Citizens Financial is a banking institution with offices at 28 State Street, Boston, County of Suffolk, Commonwealth of Massachusetts 02109.

111. At all times material herein, Defendant Citizens Financial provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

112. Defendant CITIZENS BANK OF MASSACHUSETTS (hereinafter sometimes referred to as "Citizens Bank") is a subsidiary of Citizens Financial.

113. Citizens Bank conducts business in the Commonwealth of Massachusetts at 28 State Street, in Boston, County of Suffolk, Commonwealth of Massachusetts 02109.

114. At all times material herein, Defendant Citizens Bank provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

115. Defendant FIDELITY CO-OPERATIVE BANK doing business as FIDELITY BANK (hereinafter sometimes referred to as "Fidelity Bank") is a Massachusetts Chartered Banking Institution, having its principal offices at 675 Main Street, in Fitchburg, County of Worcester, Commonwealth of Massachusetts 01420.

116. At all times material herein, Defendant Fidelity Bank provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

117. Defendant MIDDLESEX SAVINGS BANK (hereinafter sometimes referred to as "Middlesex Savings") is a Massachusetts Chartered Banking Institution, having its principal offices at 6 Main Street, in Natick, County of Middlesex, Commonwealth of Massachusetts 01760.

118. At all times material herein, Defendant Middlesex Savings provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

119. The Defendant, WELLS FARGO & COMPANY (hereinafter sometimes referred to as "Wells Fargo"), is a publicly traded corporation duly organized and existing under the laws of the State of Delaware, having its principal office in San Francisco, California; and conducting business within the Commonwealth of Massachusetts.

120. At all times material herein, the Defendant, Wells Fargo, provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

121. The Defendant, WELLS FARGO BANK, N.A. (hereinafter sometimes referred to as "Wells Fargo Bank"), is national banking institution in the United States chartered and supervised by the federal Office of the Comptroller of the Currency, with a principal place of business in Sioux Falls, South Dakota. Wells Fargo Bank, N.A. is a subsidiary of Wells Fargo, and conducts business in the Commonwealth of Massachusetts at, *inter alia*, 201 Washington Street, in Boston, County of Suffolk, Commonwealth of Massachusetts

122. At all times material herein, the Defendant, Wells Fargo Bank, provided banking services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

123. The Defendant, FMR, LLC, also known as FIDELITY INVESTMENTS (hereinafter sometimes referred to as “Fidelity Investments”) is a Foreign Limited Liability Company, organized and existing under the laws of the State of Delaware, having its principal offices at 245 Summer Street, Suite F7B, in Boston, County of Suffolk, Commonwealth of Massachusetts 02110.

124. At all times material herein, the Defendant, Fidelity Investments, provided investment and asset management services, maintained accounts, and received transfers of funds from or for the benefit of TelexFree.

125. The Defendant, WADDELL & REED FINANCIAL, INC.; (hereinafter sometimes referred to as “Waddell & Reed Financial”), is a publicly traded corporation duly organized and existing under the laws of the State of Delaware, having its principal place of business at 6300 Lamar Avenue, in Overland Park, Kansas 66202-4200 Waddell & Reed Financial is a national financial, investment and mutual fund institution in the United States, with offices in Massachusetts at, *inter alia*, 281 Winter Street, in Waltham, County of Middlesex, Commonwealth of Massachusetts 02451.

126. At all times material herein, the Defendant, Waddell & Reed Financial, provided investment and financial services, and provided accounts and received transfers of funds from or for the benefit of TelexFree.

127. The Defendant, WADDELL & REED, INC. (hereinafter sometimes referred to as “Waddell & Reed”) is a national financial and investment institution in the United States with a principal place of business at 6300 Lamar Avenue, in Overland Park, Kansas 66202-4200.

128. Waddell & Reed, is a subsidiary of Waddell & Reed Financial, and conducts business in the Commonwealth of Massachusetts at, *inter alia*, 281 Winter Street, in Waltham, County of Middlesex, Commonwealth of Massachusetts 02451.

129. At all times material herein, the Defendant, Waddell & Reed, provided investment and financial services, and provided accounts and received transfers of funds from or for the benefit of TelexFree.

130. Defendant GLOBAL PAYROLL GATEWAY, INC. (hereinafter sometimes referred to as "GPG") is a corporation duly organized and existing under the laws of the State of California, having its principal offices at 18662 MacArthur Boulevard, Suite 200, in Irvine, California 92612.

131. Defendant GPG provides payment processing services for companies, and acted as a conduit for payment between TelexFree and its Promoters/Investors.

132. Defendant INTERNATIONAL PAYOUT SYSTEMS, INC. (hereinafter sometimes referred to as "IPS") is a corporation duly organized and existing under the laws of the State of Florida, having its principal offices at 2500 East Hallandale Beach Boulevard, Suite 800, Hallandale Beach, Florida 33009.

133. Defendant IPS provides payment processing services for companies and acted as a conduit for payment between TelexFree and its Promoters/Investors.

134. Defendant PROPAY, INC. (hereinafter sometimes referred to as "ProPay") is a corporation duly organized and existing under the laws of the State of Utah.

135. Defendant ProPay has its principal offices at 3400 North Ashton Boulevard, Lehi, Utah 84043 and also does business as PROPAY.COM.

136. Defendant ProPay provides payment-processing services for companies and acted as a conduit for payment between TelexFree and its Promoters/Investors, including Promoters/Investors in Massachusetts.



137. Defendant BASE COMMERCE, LLC (hereinafter sometimes referred to as “Base Commerce”) is a Limited Liability Company duly organized and existing under the laws of the State of Arizona.

138. Defendant Base Commerce has its principal offices at 7910 S. Kyrene Road, Suite 106, Tempe, Arizona 85284, and also does business as PHOENIX PAYMENTS.

139. Defendant Base Commerce provides payment-processing services for companies and acted as a conduit for payment between TelexFree and its Promoters/Investors, including Promoters/Investors in Massachusetts.

140. Defendant VANTAGE PAYMENTS, LLC (hereinafter sometimes referred to as “Vantage Payments”) is a Limited Liability Company duly organized and existing under the laws of the State of Arizona, having its principal offices at 8300 N. Hayden Road #A207, Scottsdale, Arizona 85251.

141. Defendant Vantage Payments provides payment-processing services for companies and acted as a conduit for payment between TelexFree and its Promoters/Investors, including Promoters/Investors in Massachusetts.

142. It is believed that additional payment – processing services aided and abetted in TelexFree’s Pyramid Ponzi scheme but their identities are as yet unknown. For ease of reference at this time they can only be referred to herein at this time as Defendant Payment – Processing Services Doe.

143. The Putative Class Representatives seek to obtain damages, restitution and injunctive relief for the Class, as defined below, from Defendants.

144. On June 13, 2013, the 2nd Civil Court of Rio Branco, in the Brazilian State of Acre, enjoined TelexFree from conducting any further business operations and froze its assets.

**GENERAL ALLEGATIONS**

**A. TELEXFREE, LLC**

145. Telex Free, LLC was organized under the laws of the State of Nevada on July 19, 2012.

146. There is no distinction between the business operations of TelexFree, LLC and TelexFree, Inc.

147. At all material times herein, TelexFree LLC was identified as a limited liability company as registered with the Corporations Division of the Secretary to the Commonwealth of Massachusetts (Identification Number 001105166).

148. TelexFree, LLC registered with the Secretary of State for the Commonwealth of Massachusetts on April 18, 2013.

149. At all times material herein, TelexFree, LLC maintained a post office box at 4705 S. Durango Drive, #100-J51, Las Vegas, Nevada 89147.

150. At all times material herein, and at least between February 15, 2012 and approximately April 15, 2014, TelexFree, LLC operated a Massachusetts office at 225 Cedar Hill St., Suite 200, Marlborough, Massachusetts 01752.

151. At all material times herein, Co-Defendants Carlos Costa, James M. Merrill and Carlos N. Wanzeler were the Managers of TelexFree, LLC.

152. At all times material herein, and at least between February 15, 2012 and approximately April 15, 2014, TelexFree, LLC's registered agent for the Commonwealth of Massachusetts was James Merrill whose address is identified as 225 Cedar Hill St. Suite 200, Marlborough, MA 01752.

153. At all times material herein, and at least between February 15, 2012 and approximately April 15, 2014, Co-Defendants James Merrill, Carlos Wanzeler, Steven Labriola,

Joseph H. Craft and Carlos Costa conducted the business of TelexFree, LLC in TelexFree's Massachusetts office.

154. TelexFree caused a copy the Business Entity Summary for TelexFree, LLC to be filed with the Corporations Division of the Secretary of the Commonwealth of Massachusetts.

155. Since mid-November 2013, TelexFree has transferred approximately \$30 million from its operating accounts to accounts owned and controlled by TelexFree, its affiliated companies or the individual Defendants.

156. Tens of millions of additional investor funds received by TelexFree are unaccounted for presently.

**B. TELEXFREE, INC f/k/a COMMON CENTS COMMUNICATIONS, INC.**

157. TelexFree, Inc.<sup>16</sup> is a domestic profit corporation registered with the Corporations Division of the Secretary to the Commonwealth of Massachusetts (Identification Number 000832397).

158. At all times material herein, and at least between February 15, 2012 and approximately April 15, 2014, TelexFree, Inc. maintained a principal office at 225 Cedar Hill St. Suite 200, Marlborough, MA 01752.

159. Co-Defendants James M. Merrill and Carlos N. Wanzeler are the officers and directors of TelexFree, Inc.

---

<sup>16</sup> Paragraph 2.1.2 of the standard TelexFree contract states "TELEXFREE INC, from its headquarters in, Marlboro, Massachusetts (U.S.), on the basis of an operating contract between the latter and the CONTRACTOR (YMPACTUS), has as its primary activity VOIP telephony, using its equipment installed at its headquarters in Massachusetts, where it makes the necessary connections for these calls; it also provides virtual media, through the website [www.telexfree.com](http://www.telexfree.com) to associates and to the PROMOTERS that YMPACTUS/TELEXFREE coordinates and controls, including the respective publicity channels."

160. At all times material herein, and at least between February 15, 2012 and approximately April 15, 2014, TelexFree, Inc.'s registered agent was Defendant James Merrill, who listed an address of 225 Cedar Hill St., Suite 200, Marlborough, MA 01752.

161. At all times material herein, and more particularly since February 15, 2012, Co-Defendants James Merrill, Carlos Wanzeler, Steven Labriola, Joseph H. Craft and Carlos Costa conducted the business of TelexFree, Inc. in the Marlborough, Massachusetts office

162. TelexFree, Inc. was originally organized on December 31, 2002 under the name Common Cents Communications, Inc. ("CCCI"). CCCI's name was changed to TELEXFREE, INC on February 15, 2012.

163. TelexFree caused a copy of the Business Entity Summary for TelexFree, Inc. as filed with the Corporations Division of the Secretary of the Commonwealth of Massachusetts.

164. TelexFree, Inc. issued 275,000 shares of CNP class stock with a \$0.00 value per share.

**C. TELEXFREE FINANCIAL, INC.**

165. TelexFree Financial was incorporated by Co-Defendant Joseph H. Craft on December 26, 2013.

166. TelexFree Financial was fraudulently set up for the purpose of sheltering funds rightfully belonging to the putative class.

167. At all material times herein, Co-Defendants James M. Merrill and Carlos N. Wanzeler are officers and directors of TelexFree Financial, and Co-Defendant Carlos N. Wanzeler is its registered agent.

168. On December 30 and December 31, 2013, TelexFree Financial received wire transfers totaling \$4,105,000 from TelexFree, Inc. and TelexFree, LLC.

169. On April 14, 2014, Defendants TelexFree, Inc., TelexFree, LLC and TelexFree Financial, Inc. abruptly sought bankruptcy protection in Nevada under Chapter 11, admitting that they cannot meet their obligations from VoIP revenues, and sought authority to reject all their current obligations to Promoters.

**D. RELATIONSHIP OF TELEXFREE, LLC, TELEXFREE, INC. AND TELEXFREE FINANCIAL, INC.**

170. At all times material herein, and at least since February 15, 2012, there has been a high degree of operational interdependence among TelexFree, LLC, TelexFree, Inc., and TelexFree Financial (collectively referred to as "TelexFree"), to the extent that the operations of these entities are indistinguishable.

171. At all times material herein, TelexFree, LLC, TelexFree, Inc., and TelexFree Financial shared common management and ownership.

172. More particularly, and at all times material herein, and at least since February 15, 2012, Defendants Merrill, Wanzeler, Labriola, Craft and Costa have together owned and operated TelexFree, LLC, TelexFree, Inc., and TelexFree Financial without any distinction among these entities.

173. At all times material herein, and at least between February 15, 2012 and approximately April 15, 2014, funds were freely transferred between and among TelexFree, LLC, TelexFree, Inc., and TelexFree Financial without any distinction among these entities.

174. At all times material herein, TelexFree, LLC, TelexFree, Inc. and TelexFree Financial have also shared common financial, strategic, legal, and human resources.

175. More particularly, upon information and belief, at all times material herein, and at least between February 15, 2012 and approximately April 15, 2014, TelexFree, LLC, TelexFree, Inc. and TelexFree Financial:

- a. Conducted business from the same business addresses;
- b. Retained the same employees;
- c. Conducted business using the same telephone lines;
- d. Utilized the same copy machines in the course of business;
- e. Utilized the same banks and bank accounts in the course of business;
- f. Utilized the same payment processing services companies in the course of business;
- g. Sought and received professional services from the same accountants; and
- h. Sought and received professional services from the same attorneys.

176. As such, Defendants TelexFree, LLC, TelexFree, Inc. and TelexFree Financial are alter ego entities, which combine to form a single enterprise.

**E. TELEXFREE'S UNLAWFUL, UNFAIR AND DECEPTIVE PYRAMID PONZI SCHEME**

177. At all times material herein, TelexFree and the other Defendants engaged in: (a) fraudulent or deceptive conduct in connection with the purchase or sale of securities, in violation of Section 10 (b) of the Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 there under; (b) fraud in the offer or sale of securities, in violation of Section 17(a) of the Securities Act of 1933 ("Securities Act"); and (c) the offer or sale of unregistered securities, in violation of Section 5 of the Securities Act.

178. In addition, TelexFree and the other Defendants unlawfully, willfully and knowingly used means and instrumentalities, directly and indirectly, in connection with the purchase and sale of unregistered securities; and used and employed manipulative and deceptive devices and contrivances in violation of, *inter alia*, the Massachusetts Uniform Securities Act, M.G.L. c. 110A, Section 410b.

179. Plaintiffs make the following allegations upon information and belief and the investigation of their counsel, except as to their own actions and the facts that are a matter of

public record:

180. TelexFree is a marketer of telecommunications and advertising primarily, though not exclusively, targeting the hard-working Brazilian-American and Dominican-American communities.

181. TelexFree's business purportedly centers on the sale of its VoIP Program, 99 TelexFree, despite the fact that TelexFree's president testified to having limited knowledge of VoIP and never having been in the telecom business.

182. A VoIP computer program, such as 99TelexFree, allows an individual to place phone calls over the Internet.

183. In effect, an individual can use VoIP as a substitute for traditional landline phone services.

184. TelexFree is currently under investigation for offering fraudulent and unregistered securities by running a multi-level marketing scheme.

185. This scheme borrows elements from the once common phone card frauds of the mid-2000's, while supercharging its reach through an elaborate internet-marketing machine.

186. Using various interrelated business operations, fraudulent practices, schemes, bank accounts and entities, TelexFree claims it has raised nearly \$1,000,000,000.00 worldwide.<sup>17</sup>

187. TelexFree has not received \$1,000,000,000.00 worldwide.

188. As with all Ponzi or Pyramid Schemes, TelexFree operations are untenable without a continuous influx of new capital.

189. Indeed, the financial basis of the TelexFree scheme centers on the recruitment of additional participants and placing online advertisements – not the sales of 99TelexFree Voice over Internet Protocol computer programs (hereinafter “VoIP Program(s)”).

---

<sup>17</sup> TelexFree raised over \$75,000,000.00 in Massachusetts alone between February 15, 2012 and April 2014.

190. Class Members were fraudulently induced to invest in at least two other “scam” business opportunities involving the offer or sale of unregistered securities in Massachusetts, namely, 1) TelexFree’s passive income scheme, and 2) an offer to invest in TelexFree’s hotel program.

191. Despite the fact that upon the advice of their legal counsels, TelexFree referred to the members of the putative class as “*Associates*,” “*Members*,” and “*Promoters*,” Plaintiffs Cellucci, Lake and Pacheco and all other members of the putative class are “Investors” under federal and state securities law.

192. Using technology borrowed from Disk A Vontade Telefonica, Ltda (“Disk A Vontade”), a nearly identical venture based in Brazil and sharing management with TelexFree, TelexFree rebranded Disk A Vontade’s VoIP Program, offering it for a flat monthly fee of \$49.90.

193. Unlike Disk A Vontade operations, however, TelexFree coupled the VoIP Program with a wildly lucrative and fraudulent scheme (hereinafter the “Passive Income Scheme”).

194. The core of the Passive Income Scheme centers on the investment of either \$289.00 or \$1,375.00.

195. A participant who invests \$289.00 receives one advertisement kit and ten VoIP Programs.

196. A participant who invests \$1,375.00 receives five advertisement kits and fifty VoIP Programs.

197. The TelexFree advertisement kit enables participants to generate a return by posting pre-written advertisements, to pre-determined websites, through an automated TelexFree system.



198. A participant's daily use of the advertisement kits generates investment returns without the need for any VoIP Program sales.

199. As testified to, posting advertisements is an effortless process that takes only a few minutes per advertisement.

200. Indeed, many participants pay third parties to post advertisements – completely outsourcing any required work at a minimal cost.

201. By merely posting one advertisement each day of the week, the TelexFree participant receives an additional VoIP Program.

202. The participant can sell the additional VoIP Program to TelexFree for \$20.00.

203. Thus, over the course of the year, a participant who initially invests \$289.00 and does nothing more than place one advertisement per day can receive profit of at least \$681.00 – a return in excess of 200%.

204. Alternatively, a participant who initially invests \$1,375.00 and does nothing more than place five advertisements per day can receive profit of at least \$3,675.00 – a return in excess of 350%.

205. This feature alone has attracted thousands of individuals to invest in TelexFree.

206. The Passive Income Scheme generates further returns for participants through various bonus structures and recruitment commissions.

207. TelexFree tailors each of the additional income streams to incentivize recruitment.

208. By merely recruiting one individual into the TelexFree scheme, a participant can receive as much as \$100.00.

209. By recruiting multiple individuals, TelexFree participants become eligible for revenue sharing bonuses of up to 3% of the TelexFree's VoIP Program sales.

210. Hidden among TelexFree's bonus structure and recruitment commissions is the

fact that TelexFree participants may self-qualify.

211. Indeed, as testified by participants, a participant may invest in more than one advertisement kit and personally purchase the VoIP Program to earn bonuses.

212. Thus, a participant may purchase a VoIP Program, never use the program, and still qualify for additional income.

213. Without ever selling any VoIP Program, the participant receives a return far in excess of the 200-250% guaranteed return.

214. To drum up interest in recruiting, TelexFree held extravaganzas complete with a rock concert atmosphere and wild cheering, including the “wave.”

215. Until recently, the TelexFree website and TelexFree presentations included pictures of cash and luxury property.

216. In one such presentation, TelexFree touted the Passive Income Scheme as “the opportunity of a lifetime.”

217. Through such fantasies, reserved only for those at the top of the Passive Income Scheme, TelexFree induced investments drawn from participants’ earnest earnings and savings.

218. Troublingly, TelexFree allowed certain participants to join the scheme despite prior run-ins with the law.

219. TelexFree prominently highlighted one such participant, Defendant Rodrigues, as the top promoter in the world on the TelexFree website.

220. Rodrigues, a self-proclaimed millionaire, had previously operated a similar multi-level marketing phone card fraud shuttered by the SEC in 2006.

221. TelexFree’s revenue from sales of VoIP Programs sales alone is inadequate to satisfy participant returns. Over the course of TelexFree’s scheme, revenue from sales of VoIP Programs has constituted only a tiny fraction of TelexFree’s revenue and funds promised to

Promoters.

222. According to an investigation conducted by the United States Securities and Exchange Commission (hereinafter sometimes referred to as the "SEC"), between August 2012 and March 2014, TelexFree received slightly more than \$1.3 million from the sale of approximately 26,300 VoIP Programs, while receiving more than \$302 million in investments by Promoters – thus, less than one-half of one percent of total revenue during this period derived from sales of TelexFree's purported product.

223. Furthermore, according to the SEC, during this period, TelexFree promised to pay Promoters returns of over \$1.1 billion – nearly a thousand times the amount of revenue derived from sales of the VoIP Programs.

224. According to an investigation by the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts (hereinafter sometimes referred to as the "SOC") in 2012 and 2013, TelexFree identified 4,845,576 VoIP Program transactions totaling \$238,395,353.80.

225. During this time, net revenue received by TelexFree from VoIP Program sales was significantly less due to substantial commission payments.

226. Importantly, TelexFree founder Wanzeler could not identify the number of individuals purchasing only a VoIP Program without also becoming a participant.

227. Wanzeler provided wildly varied estimates when challenged to identify the number of VoIP Programs sold to non-participants.

228. Over the same period, TelexFree had 783,771 investments of either \$289.00 or \$1,375.00 totaling \$880,189,455.32.

229. Assuming that each participant invested only \$289.00 and did no more than post one advertisement per day, TelexFree owed participants a total of \$799,446,420.00.

230. Alternatively, if each participant invested only \$1,375.00 and did no more than post five advertisements per day, TelexFree owed \$3,997,232,100.00 to its participants.

231. According to data provided by TelexFree, \$1,375.00 investments accounted for 88% of transactions through Massachusetts-based participants.

232. Even assuming that only 50% of all participant investments were for \$1,375.00, TelexFree would still owe \$2,398,897,200.00 – a number that far exceeds TelexFree's reported total revenues over the same period.

233. This figure of almost \$2.4 billion does not even include further bonuses, recruitment commissions, and revenue sharing.

234. The inclusion of these additional payments would create an even greater disparity between the VoIP Program revenue and guaranteed money paid out of the Passive Income Scheme to participants.

235. TelexFree did not generate sufficient funds from sales of their phone service to pay the returns on investments that they had contracted to pay.

236. Instead, the funds TelexFree used to pay the purported returns on investments were the principal investment funds (membership fees) tendered by subsequent TelexFree investors.

237. TelexFree's Contract at Section 2.6.5 (m) mandates that Promoters are not to use the term investment with respect to the registration costs.

238. Co-Defendant and Company Counsel Attorney Gerald P. Nehra, through his affiliated companies (Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC, and Richard W. Waak, Attorney at Law, PLLC), and under the direct supervision of Co-Defendants Richard W. Waak and Richard W. Waak Attorney at Law, PLLC provided this deceitful advice for the purpose of furthering perpetuating Defendants unlawful Pyramid Ponzi

Scheme.

239. Specifically, TelexFree's Contract at Section 2.6.5 (m) provides that the Promoter must not "use terms that distort the real meaning of products or the mechanism and functioning of multilevel marketing, including, without limitation, expressions that convey the idea of instant wealth for nothing in exchange, as well as speaking of registration costs as a 'financial investment.' Similarly, it is expressly prohibited to use the term 'INVESTMENT' at meetings and in promotional materials in general, orally or in writing.

240. However, promotional materials posted online by TelexFree specifically referred to income received by Promoters in exchange for placing ads as part of the AdCentral Packages as "*passive income*."<sup>18</sup>

**F. BRAZILIAN HELP, DISK A VONTADE, AND YMPACTUS**

241. As early as 2005, Wanzeler had been operating purported telecommunications businesses in the United States and Brazil, under the names "Brazilian Help" and "Disk A Vontade Telefonica," respectively.

242. Disk A Vontade Telefonica, Ltda, also known as Diskavontade, also known as Disk (hereinafter sometimes referred to as "Disk A Vontade"), is a Brazilian Limited Liability Company, now or formerly having its principal offices as Rua Jose Luiz Gabeira, NRO 170, APTO 103 Barro Vermelho, and now or formerly having a Massachusetts office as 225 Cedar Hill Street, Suite 200, in Marlborough, Massachusetts 01752.

243. Disk A Vontade's Massachusetts office is located in the same building in Marlborough, Massachusetts as TelexFree.

244. Carlos Wanzeler is the Chief Executive Officer of Disk A Vontade.

245. Merrill is Vice President and a Signatory of Disk A Vontade.

---

<sup>18</sup> See TelexFree Promotional Advertisements, attached herewith as Exhibit 7.

246. Disk a Vontade's domain ("discavontade.com") is registered to Defendant Carlos Wanzeler.

247. Brazilian Help, Inc. ("hereinafter sometimes referred to as "Brazilian Help") is a Domestic Profit Corporation organized and existing under the laws of the Commonwealth of Massachusetts, now or formerly having a principal place of business at 225 Cedar Hill Street, Suite 118, in Marlborough, Massachusetts 01752.

248. Wanzeler is the President, Secretary, Treasurer, and Registered Agent of Brazilian Help.

249. Brazilian Help's Massachusetts office is located in the same building in Marlborough, Massachusetts as TelexFree.

250. Brazilian Help and Disk A Vontade were, at all times, the American and Brazilian branches, respectively, of the same enterprise.

251. Between approximately 2005 and 2012, Costa, a longtime friend of Wanzeler, was employed by Disk A Vontade and was Wanzeler's top sales agent in Brazil.

252. In early 2012, Costa suggested to Wanzeler that they begin soliciting customers through online advertisement.

253. Acting on Costa's proposal, Wanzeler and Merrill changed the name of Common Cents Communications, Inc. to TelexFree, Inc., and Wanzeler and Costa together created a website, "telexfree.com."

254. At all times material herein, Disk A Vontade was the registered owner of the Telexfree.com domain name.

255. In July 2012, Wanzeler, Merrill and Costa together formed TelexFree, LLC.

256. Ympactus Comercial, Ltda-ME, is a Brazilian Limited Liability Company, which serves as TelexFree's Brazilian branch.

257. At all times material herein, Ympactus has been jointly controlled by Wanzeler, Costa, and Merrill.

258. Ympactus is indistinguishable from TelexFree; they share common managerial and financial resources, and form a common enterprise of international scope.

**G. TELEXFREE'S OFFER AND SALE OF UNREGISTERED INVESTMENTS IN BEST WESTERN HOTEL**

259. In addition to the Passive Income Scheme hereinbefore described, TelexFree, through Ympactus and Costa, offered an investment in a Best Western Hotel.

260. As described by TelexFree's president, the Best Western Hotel opportunity was an important marketing tool to bolster TelexFree credibility worldwide.

261. TelexFree management facilitated the offer of the Best Western Hotel opportunity through the inclusion of the Best Western Hotel opportunity on the front page of the TelexFree website accessible in the Commonwealth.

262. Through a prominently placed website banner and video on the TelexFree website, TelexFree presented this Best Western Hotel investment opportunity as having a guaranteed yearly return of over 8%.

263. TelexFree never registered this security offering with the SEC or released any prospectus or investor disclosure.

264. The Best Western Hotel opportunity video remained on the United States-based TelexFree website for months despite the fact that the president of TelexFree was aware of the video and requested TelexFree's website staff to remove the video.

**H. INVESTIGATION OF, AND INJUCTION AGAINST, TELEXFREE'S BRAZILIAN OPERATIONS IN BRAZIL**

265. In January, 2013, the Brazilian Bureau of Consumer Protection (known as

Procon), began an investigation into TelexFree. In its January 11, 2013 press release, Procon indicated that it had “*detected evidence of crimes*”:

The investigation initiated by civil prosecution of Consumer Protection (no. 01/2013) shows several controversial issues and possible crimes that put consumers at risk in time to accept that kind of deal.

Among the possibilities, there is a breach in the Federal Law No. 1.521/51, art. 2, according to which it is a crime:

“Obtaining or attempting to obtain illicit gains at the expense of the people or of undetermined number of people through speculation or processes fraudulent (‘snowball’, ‘chains’, ‘pichardismo’ and any other equivalent)” including Ponzi pyramid”.

There is also the possible violation of the Code of Consumer Protection (CDC), with false advertising, failure of product information and company, abuse of weakness or ignorance of consumers and conditions unreasonable disadvantage, among others.<sup>19</sup>

266. Procon subsequently initiated an official complaint and notified the “*State Prosecutors Office, the Minister of Finance and the Federal Police.*”<sup>20</sup> The Ministry of Finance, after its investigation, declared that:

The TelexFree business of selling packages of internet telephony (VoIP, its acronym in English), is not sustainable and suggests a Ponzi scheme, which is a crime against the popular economy.

That is the conclusion of the Secretariat for Economic Monitoring of the Ministry of Finance (Seae / MF) in a statement on Thursday (14).<sup>21</sup>

267. As the matter processed through the Brazilian Court System, the Ministry of Finance was ordered to refrain from issuing further statements about the matter. In a blatantly misleading and deceptive act, TelexFree circulated through its affiliates the following misrepresentation of the order:

<sup>19</sup> “*TelexFree under criminal investigation in Brazil*”, Behind MLM (Feb. 15, 2013), <http://behindmlm.com/companies/telexfree-under-criminal-investigation-in-brazil/>, attached herewith as Exhibit 8.

<sup>20</sup> “*Ministry of Finance: TelexFree ‘not sustainable’*” Behind MLM (Mar. 17, 2013), <http://behindmlm.com/companies/ministry-of-finance-telexfree-not-sustainable/>, attached herewith as Exhibit 9.

<sup>21</sup> *Id.*



*It's official! The investigation on TelexFree has been absolved of what Behind MLM has researched and posted.*<sup>22</sup>

268. On June 19, 2013, the Brazilian Court in Acre issued an injunction putting “a stop to TelexFree’s business operations, including the registration of new affiliate investors, acceptance of new investments and paying any returns owed on existing affiliate investments.”<sup>23</sup>

269. According to the SOC, the difference between U.S. TelexFree operations and Brazilian operations is a distinction without a difference.

270. As described by TelexFree management, the ownership interests in TelexFree, Inc. (Massachusetts-based), TelexFree LLC (Nevada-based) and Ympactus (Brazilian-based), overlap.

271. Both Defendants Merrill and Wanzeler, self-proclaimed founders of TelexFree, hold 50% ownership interest in the United States entities and 20% and 40% interests, respectively, in the Brazilian entity.

272. Defendant Costa, head of Brazilian operations and longtime friend of Wanzeler, was an owner of TelexFree, LLC.

273. In late 2013, Costa withdrew his ownership for what Merrill characterized as “legal reasons.”<sup>24</sup>

274. Furthermore, TelexFree entities use the same website and back office support, merely providing identical information in multiple languages.

275. Perhaps most telling, both Merrill and Wanzeler provided testimony to the SEC stating that they transferred at least \$3,000,000.00 to Costa long after Brazilian authorities shut

---

<sup>22</sup> “Brazilian Court suspends TelexFree operations”, Behind MLM (June 20, 2013), <http://behindmlm.com/companies/telexfree/brazilian-court-suspends-telexfree-operations/>, attached herewith as Exhibit 10.

<sup>23</sup> *Id.*

<sup>24</sup> See Administrative Complaint of instituted by the Commonwealth of Massachusetts, Office of the Secretary of the Commonwealth Securities Division, Docket No. 2014-0004, page 7.

down Ympactus operations.<sup>25</sup>

#### **I. COLLAPSE OF TELEXFREE'S UNITED STATES OPERATIONS**

276. Over two years of operations, TelexFree has employed multiple financial accounts, including domestic and international bank accounts and various online payment processors, to facilitate the fraudulent offer or sale of securities in the Commonwealth of Massachusetts.

277. Almost all financial institutions have eventually terminated their relationship with TelexFree.

278. Recently, frantic emails between TelexFree management and financial institutions paint an entirely bleak picture of continuing TelexFree financial operations.

279. TelexFree operations have become a risk that financial institutions are no longer willing to bear.

280. As described by one financial institution, "[n]o US Bank or Processor . . . will accept your [TelexFree] business given that you are on month five of the Visa Chargeback monitoring program. You are one of only three merchants in the USA on month five so you are a real hot-potato as they say."<sup>26</sup>

281. On February 20, 2014 authorities in the United Kingdom issued a public warning alerting that TelexFree was a Ponzi scheme and that its Brazilian operation had been shut down.<sup>27</sup>

282. On March 9, 2014, TelexFree changed its compensation plan, thereby requiring Promoters to sell its VoIP product in order to qualify for the payments that TelexFree had

---

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> See States of Jersey Police, "*Scam targeting Madeiran community*," attached herewith as Exhibit 11; see also "*Madeirans targeted in online Ponzi scam*," The Guernsey Press (February 21, 2014), <http://guernseypress.com/news/2014/02/21/madeirans-targeted-in-online-ponzi-scam/>, attached herewith as Exhibit 12.

previously promised to pay them..

283. A central component of the new changes affect the ease of participant withdrawals.

284. TelexFree participants are no longer able to withdraw money, even money already “earned,” without making a specified number of retail sales and recruiting a number of new investors.

285. Following the changes to the TelexFree compensation plan, numerous TelexFree participants frantically contacted the Office of the Secretary of the Commonwealth, suspecting that these changes are the harbinger of TelexFree’s collapse.

286. Not only is it now more difficult to withdraw money from TelexFree, TelexFree has also switched its compensation plan from one that pays participants in dollars to one that operates on TelexFree “credits,” which are, in essence, nothing more than IOUs.

287. These rule changes generated a storm of protests from Promoters who were unable to recover their money.

288. On April 1, 2014, dozens of Promoters descended upon TelexFree’s Marlborough, Massachusetts office to protest this change and attempt to regain access to their money. Local media covering interviewed one Promoter who admitted that the VoIP service is “almost impossible to sell”.<sup>28</sup>

289. On April 14, 2014, Defendants TelexFree, Inc., TelexFree, LLC and TelexFree Financial abruptly sought bankruptcy protection in Nevada under Chapter 11, admitting that they cannot meet their obligations from VoIP revenues and seeking authority to reject all its current obligations to promoters.

#### **J. EVENTS SINCE TELEXFREE’S BANKRUPTCY FILING**

<sup>28</sup> Scott O’Connell, “*Upset customers look for answers at TelexFREE offices*”, Wicked Local-Dennis (April 1, 2014 (updated April 17, 2014)), <http://dennis.wickedlocal.com/article/20140401/NEWS/140409503?sect=More&map=0>.

290. In furtherance of their unlawful enterprise, TelexFree also mailed fraudulent and inaccurate 1099 (Miscellaneous Income) forms to investors, possibly to create the illusion that they had made payments to investors when, in fact, no such payments were made.

291. The 1099 forms were provided long after the mandated January 31, 2014 deadline, and some after the April 15, 2014 filing deadline.

292. TelexFree falsely represented that investors had received income that they had in fact never received.

293. TelexFree's former officers or employees stated to the TelexFree bankruptcy transition team that under the pre-March 2014 standard form contract TelexFree owes its promoters over \$5 billion dollars.

294. At all times material herein, the other Defendants knew that TelexFree was an illegal Pyramid Ponzi Scheme which involved the illegal sale of securities, but continued to aid, abet and further such illegal activities. Despite the foregoing knowledge, TelexFree and the other Defendants continued to participate in the attraction and processing of new investors, continued to allow payments to process through TelexFree's accounts, allowed TelexFree to continue to illegally sell securities and further its illegal Pyramid Ponzi Scheme, and otherwise continued to further TelexFree's illegal activities.

295. On April 15, 2014, the Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts (hereinafter sometimes referred to as the "SOC") filed an Administrative Complaint against TelexFree, Inc. and TelexFree, LLC, alleging violations of the Massachusetts Uniform Securities Act, MASS. GEN. LAWS, ch. 110A.

296. The SOC is seeking injunctions and orders, *inter alia*, requiring TelexFree, Inc. and TelexFree, LLC to cease and desist from further conduct violating Massachusetts securities laws and regulations, to provide an accounting of all proceeds received as a result of the

TelexFree's fraud, to provide restitution to Investors for losses attributable to the fraud operations, and to disgorge all profits.

297. Also on April 15, 2014, the U.S. Securities and Exchange Commission (hereinafter sometimes referred to as the "SEC") filed a civil Complaint and Jury Demand against TelexFree, Inc. and TelexFree, LLC as well as Merrill, Wanzeler, Labriola, Craft, Rodrigues, De La Rosa, Crosby, and Sloan, alleging violations of the Securities Act of 1933, the Securities Exchange Act of 1934, and SEC Regulations.<sup>371</sup> In its Complaint, the SEC requested and was granted a preliminary injunction and an order freezing assets of TelexFree. The SEC is also seeking, *inter alia*, disgorgement of profits and additional civil penalties.

298. On Tuesday, April 15, 2014, the Federal Bureau of Investigation (hereinafter sometimes referred to as the "FBI") and the U.S. Department of Homeland Security (hereinafter sometimes referred to as the "DHS") conducted a raid of TelexFree's Marlborough, Massachusetts office.

299. During this raid by the FBI and DHS, the Defendant, Craft, was caught by federal agents attempting to leave the building with a laptop and approximately \$38 million in cashier's checks in a bag, in an apparent attempt to abscond with ill-gotten funds.

300. When questioned, Craft misrepresented to said federal agents that he was merely a "consultant", and claimed that the checks and computer were "personal". On or about May 1<sup>st</sup>, Montana Securities Commissioner filed cease and desist order against TelexFree.

301. The following day, the Nevada Bankruptcy Court, on Motion by the SEC, transferred the matter to the Federal District Court in Massachusetts, Central Division. TelexFree is now active and operating their Pyramid Ponzi Scheme in Canada, with offices in Richmond, British Columbia, but is being closely monitored by the B.C. Securities Commission.

302. During hearings in this case, conducted on May 2, 2014, William H. Runge, III,

Chief Restructuring Officer of TelexFree, estimated that, as of TelexFree's Bankruptcy filing, TelexFree had assets of \$31 million in its bank accounts, \$28 million in brokerage accounts, and nearly \$30 million currently held by payment processing companies.

**K. TELEXELECTRIC, LLLP'S AND TELEX MOBILE HOLDINGS, INC.'S INVOLVEMENT IN THE TELEXFREE PYRAMID PONZI SCHEME**

303. TelexElectric is a Nevada limited liability limited partnership formed on December 2, 2013 by Co-Defendants Merrill and Wanzeler.

304. According to its filings with the State of Nevada Secretary of State Office, Co-Defendants Merrill and Wanzeler are listed as the General Partners of TelexElectric.

305. Co-Defendants Merrill and Wanzeler further list their address as 4705 S. Durango Drive, #100-J1 (a post office box), Las Vegas, Nevada 89147, which is the same location as TelexFree, LLC.

306. TelexElectric also lists as its address 4705 S. Durango Drive, #100-J1 (a post office box), Las Vegas, Nevada 89147.

307. Telex Mobile is a Nevada corporation formed on November 26, 2013.

308. According to its filings with the State of Nevada Secretary of State Office, Telex Mobile identifies its officers and directors as:

- i. Co-Defendant James M. Merrill is President, Secretary and Director, having an address at 4705 S. Durango Drive, #100-J1 (a post office box), Las Vegas, Nevada 89147.
- j. Co-Defendant Carlos Wanzeler is Treasurer and Director, having an address at 4705 S. Durango Drive, #100-J1 (a post office box), Las Vegas, Nevada 89147.

309. According to filings with the State of Nevada Secretary of State Office, both TelexElectric and Telex Mobile Holdings identify as their registered agent BWFC Processing

Center, LLC, 3960 Howard Hughes Parkway, Suite 500, Las Vegas, Nevada 89169

310. Defendants TelexFree, LLC, TelexFree, Inc., TelexFree Financial, TelexElectric and TelexFree Mobile Holdings are alter ego entities, which combine to form a single enterprise.

311. TelexFree's financial statements reveal that TelexElectric received a \$2,022,329.00 "loan" from TelexFree during the class period.<sup>29</sup>

312. TelexFree's financial statements further reveal that TelexFree Mobile received a \$500,870 "loan" from TelexFree during the class period.<sup>30</sup>

313. TelexElectric was fraudulently set up for the purpose of sheltering funds rightfully belonging to the putative class.

314. These "loans" were in essence fraudulent transfers by TelexFree to evade claims by investors and creditors, and otherwise to unlawfully abscond with funds that rightfully belonged to creditors and investors.

**L. TELEXFREE'S OFFICERS AND OWNERS KNOWINGLY PERPETRATED THE UNLAWFUL TELEXFREE PYRAMID PONZI SCHEME AND CONSPIRACY**

315. At all times material herein, Defendants Merrill, Wanzeler, Labriola, Craft and Costa (hereinafter sometimes collectively as the "Defendant Officers" or "TelexFree's Management") were responsible for the control and operation of TelexFree and its affiliated entities.

316. Moreover, TelexFree's Management not only controlled the activities and operations of TelexFree, but also knowingly and willfully conspired to perpetrate, and did in fact perpetrate, the TelexFree Pyramid Ponzi Scheme with full awareness of its fraudulent and illegal nature.

---

<sup>29</sup> See TelexFree, LLC Balance Sheet as of December 31, 2013, marked as Exhibit 13

<sup>30</sup> *Id.*

317. At all times material herein, Defendant Merrill served as the President, Secretary, and Director of TelexFree, Inc., a Manager of TelexFree, LLC, President, Secretary and Director of TelexFree Financial, General Partner of TelexElectric, and President, Secretary and Director of Telex Mobile Holdings

318. In his capacities as Officer, Director, Manager and General Partner of the foregoing interrelated companies, Merrill exercised significant control over TelexFree's business operations.

319. More particularly, Merrill exercised significant control over the TelexFree Pyramid Ponzi Scheme.

320. Defendant Merrill has appeared in videos posted to the internet, in which he can be seen promoting TelexFree as a revenue opportunity for Promoters.

321. As of March 28, 2014, the TelexFree website included a biography of Merrill, which stated that Merrill was a 1985 graduate of Westfield State University in economics.

322. Also, as of March 28, 2013, the TelexFree website stated that Merrill is "well versed in one of the new technologies of the era (VoIP) [sic]."

323. As of April 28, 2014, the TelexFree Canadian website continued to state that Merrill is a 1985 graduate of Westfield State University in economics and "[k]nowledgeable about a new era of technology (VOIP)."

324. According to testimony obtained by the SOC, Merrill attended Westfield State University for a mere two years, without either receiving a degree or declaring a major.

325. Furthermore, in direct contravention to the representations of the TelexFree websites, Merrill testified to SOC that he had only a basic understanding of VoIP technology.

326. At all times material herein, Defendant Wanzeler served as Treasurer and a Director of TelexFree, Inc., a Manager of TelexFree, LLC, Vice President, Treasurer, and a



Director of TelexFree Financial, General Partner of TelexElectric and Treasurer and Director of Telex Mobile Holdings.

327. According to corporate filings on record with SOC, at all times material herein, Wanzeler has also served as the Chief Executive Officer of TelexFree, Inc.

328. In his capacities as Officer, Director, Manager and General Partner of the foregoing interrelated companies, Wanzeler exercised significant control over TelexFree's business operations.

329. More particularly, Wanzeler exercised significant control over the TelexFree Pyramid Ponzi Scheme.

330. Defendant Wanzeler has also participated in marketing TelexFree to potential investors, appearing in videos posted to the Internet in which he can be seen promoting TelexFree as a revenue opportunity for Promoters.<sup>407</sup> Among the other material misrepresentations made by TelexFree and its Defendant Officers include a website photograph of Merrill standing in front of a building in Marlborough, Massachusetts, with the caption "*Mr. Merrill in front of the headquarters of TelexFree in the USA*", when in fact they only occupied one suite which they shared with 28 other companies. Merrill further misrepresented, in a press release on March 21, 2014, that TelexFree had "*been in VoIP telecommunications for more than a decade.*"

331. At all times material herein, Defendant Labriola, served as the International Marketing Director for TelexFree, Inc.

332. Labriola was one of the original Directors of Common Cents Communications, Inc., and at all material times herein exercised significant control over TelexFree's business operations and the operations of its interrelated companies.

333. Defendant Labriola has also appeared in several videos promoting TelexFree

which were posted on the internet, and has acted as TelexFree's spokesman to Investors during post-bankruptcy petition conference calls.

334. As a Director of TelexFree, Inc., Defendant Labriola, has exercised significant control over the TelexFree Pyramid Ponzi Scheme.

335. As International Marketing Director for TelexFree, Inc., Labriola has also actively and knowingly perpetrated the TelexFree fraud through the dissemination of false and misleading advertising and marketing communications.

336. At all times material herein, Defendant Craft, also known as Joe H. Craft, has been a certified public accountant and served as the Chief Financial Officer ("CFO") of Telex Free, Inc and TelexFree, LLC.

337. In his capacity as CFO of TelexFree, Craft has been responsible for, *inter alia*, preparing or approving TelexFree's financial statements, overseeing TelexFree's accounting methods and records, and otherwise exercising significant supervision and control over TelexFree.

338. On April 23, 2013, in response to a request for a profit-and-loss statement issued by the SOC, TelexFree produced a document purporting to be TelexFree's 2012 profit-and-loss statement.<sup>31</sup>

339. TelexFree did not make use of usual and accepted Multi Level marketing accounting practices. For example they did not separate out income generated by sales of VoIP from income generated by other means.

340. On February 5, 2014, the SOC requested a second profit-and-loss statement from TelexFree for 2012, which TelexFree produced on February 26, 2014.<sup>32</sup>

---

<sup>31</sup> See Administrative Complaint of instituted by the Commonwealth of Massachusetts, Office of the Secretary of the Commonwealth Securities Division, Docket No. 2014-0004, page 29.

<sup>32</sup> *Id.*

341. A comparison of these two profit-and-loss statements – each purporting to be TelexFree’s profit-and-loss statement for 2012 – reveals massive discrepancies.

342. For example, the first statement provided by TelexFree lists Total Income for 2012 at \$1,864,939.70, while the second lists Total Income for 2012 at \$2,834,835.70.<sup>33</sup>

343. As further examples, Agent Commission is listed at \$520,582.95 in the first, versus \$2,105,925.61 in the second; Total Expenses are listed as \$784,899.22 in the first, versus \$2,333,893.09 in the second; Net Operating Income is listed as \$1,080,040.48 in the first, versus \$478,251.56 in the second; and Net Income is listed as \$1,066,313.39 in the first, versus \$477,652.23 in the second.<sup>34</sup>

344. The existence of duplicative accounting records containing egregious discrepancies is clear indicia of TelexFree’s falsification of accounting records and failure to adhere to Generally Accepted Accounting Principles (“GAAP”).

345. As Chief Financial Officer for TelexFree, Inc. and TelexFree, LLC, as well as a certified public accountant, Defendant Craft, knowingly perpetrated the TelexFree fraud by, *inter alia*:

- a. Overseeing TelexFree’s creation of falsified accounting records;
- b. Failing to ensure that GAAP accounting methods were adopted and adhered to;
- c. Fraudulently certifying TelexFree’s business operations and accounting practices as good and lawful, despite actual knowledge of their unlawful and illegitimate nature;
- d. Concealing the fact that the AdCentral Packages purveyed by TelexFree were actually securities; and

---

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

e. Concealing and absconding with investor assets.

346. At all times material herein, Defendant Costa, was listed as Manager of TelexFree, LLC with the Massachusetts Secretary of State Corporations Division.

347. Costa is one of the original founders of TelexFree.

348. At all times material herein, Costa was involved in the day-to-day management and oversight of TelexFree and was actively involved in and managed its Brazilian operations.

349. Costa has appeared on numerous websites and videos posted on the Internet promoting TelexFree and touting its huge financial return.

350. Costa was an outspoken advocate against the Brazilian Court's decision to enjoin TelexFree's Brazilian activities, and publicly supported TelexFree's illegal and corrupt activities.

351. Costa is videoed displaying an Insurance Notification representing that it was proof of coverage for investors' returns; however, in actuality the document was a notification denying coverage.<sup>35</sup>

**M. TELEXFREE'S LAWYERS AIDED, ABBETTED AND PLAYED AN INTEGRAL PART IN TELEXFREE'S UNLAWFUL, UNFAIR AND DECEPTIVE PYRAMID PONZI SCHEME**

352. Defendants Gerald P. Nehra and Richard W. Waak, along with the entities Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC, and Richard W. Waak, Attorney at Law, PLLC (hereafter sometimes collectively referred to as "Attorney Defendants") are self-proclaimed multi-level marketing ("MLM") specialist attorneys.<sup>36</sup>

353. During the course of TelexFree's fraudulent scheme, the above-named Attorney

<sup>35</sup> See <http://www.youtube.com/watch?v=q2A2IsAPd0I>.

<sup>36</sup> "Gerry Nehra gives 'legal blessing' to TelexFree," Behind MLM (Aug. 2, 2013), <http://behindmlm.com/companies/telexfree/gerry-nehra-gives-legal-blessing-to-telexfree/>. The full length tape of his legal opinions and presentation can be found at: <http://www.psquad.com/gerald-nehra.html> (herein, "Nehra Endorsement") ("After I left Amway in 1991, I had a very brief period as the vice-president and general counsel for Fuller Brush. Fuller Brush did not make it in attempting to convert from direct selling to multi-level direct selling. And when that job wasn't going to work out I ended up returning from Colorado back to Michigan and opening up a private law practice. Since 1992, I have practiced law exclusively in multi-level direct selling law. That is all that I do.")

Defendants acted as legal counsel to TelexFree.

354. Attorney Nehra had previously acted as counsel to other multi-level marketing firms, which were forced, closed by federal and/or state authorities due to fraudulent pyramid and Ponzi schemes, including ZeekRewards and AdSurfDaily.<sup>37</sup>

355. In fact, during the investigation of the AdSurfDaily scheme, Attorney Nehra filed an affidavit in court representing that AdSurfDaily was “*not a Ponzi Scheme*.”<sup>38</sup> Subsequently, in 2008, AdSurfDaily was forced to cease operations by federal authorities after being found to be a Ponzi scheme; a fact later admitted to by its principal.<sup>39</sup>

356. Attorney Nehra also previously served in an advisory capacity to ZeekRewards. ZeekRewards was later found to be an unlawful Ponzi scheme and was shut down by federal authorities.

357. Attorney Nehra’s extensive experience in multi-level marketing, and particularly his involvement with the Ponzi schemes involving AdSurfDaily and Zeek Rewards, armed him with the knowledge of what constitutes violations of United States securities law. Indeed, Attorney Nehra was well aware that the use of semantics and obscured phraseology to obfuscate securities laws fails to legitimize TelexFree’s illegal Pyramid Ponzi Scheme.

358. Attorney Waak also claims to have more than thirty years of experience in counseling MLM and direct-selling enterprises.<sup>40</sup>

359. Attorney Waak claims to have managed the legal defense of multiple class action lawsuits involving claims for “*pyramiding, securities fraud, false advertising and civil RICO*.”

360. Attorney Nehra and Attorney Waak are together the general partners of the Law

---

<sup>37</sup> *Id.*

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> See <http://www.mlmmatty.com/meet-mlm-attorneys/>.

Offices of Nehra and Waak.

361. On the website of the Law Offices of Nerha and Waak, Defendant Attorneys Nehra and Waak claim to specialize in counseling “*domestic and foreign companies operating MLM (multi-level marketing) businesses in the United States.*”<sup>41</sup>

362. Also, on the website of the Law Offices of Nerha and Waak, Attorneys Nehra and Waak boldly boast that “*No Company that retained this firm BEFORE LAUNCH has been shut down by a regulator.*”<sup>42</sup>

363. As general partners of the Law Offices of Nehra and Waak, Attorney Nehra and Attorney Waak are jointly and severally liable for torts and obligations of the firm.

364. During the time that the Law Offices of Nehra and Waak provided legal counsel to TelexFree, Attorney Waak was Principal Attorney of the law firm.

365. During this time, Attorney Waak, as Principal Attorney of the Law Offices of Nehra and Waak, was charged with oversight of the daily activities of the law firm.

366. During this time, Attorneys Nehra and Waak also maintained the Defendant Professional Limited Liability Companies, Gerald P. Nehra, Attorney at Law, PLLC and Richard W. Waak, Attorney at Law, PLLC, which, upon information and belief, also provided legal and counseling services to TelexFree.

367. Among the Attorney Defendants, and during the course of TelexFree’s scheme, there was no clear distinction among the services provided to TelexFree by the Law Offices of Nehra and Waak, the individual Attorney Defendants, and their respective Professional Limited Liability Companies.

368. The Attorney Defendants’ role and involvement in the TelexFree Pyramid Ponzi

---

<sup>41</sup> *Id.*

<sup>42</sup> *Id.*

Scheme exceeded merely providing legal counsel since they knowingly acted to further and perpetuate TelexFree's illegal Pyramid Ponzi Scheme, which caused Plaintiffs Cellucci, Lake and Pacheco and the similarly situated Putative class members to suffer economic loss.

369. The Attorney Defendants had actual knowledge that the TelexFree Business Model was a fraudulent Pyramid Ponzi Scheme.

370. Seeking to personally profit from TelexFree's exploitation of the members of the putative class, Defendant Gerald P. Nehra drew upon his prior experience to aid, abet and play an integral part in TelexFree's unlawful, unfair and deceptive acts and practices during times relevant to this complaint.

371. Attorney Nehra counseled TelexFree on methods to evade United States securities laws that were intended to offer, in part, protection from Pyramid Ponzi schemes; all to enrich himself financially and serve his own selfish interests.

372. Attorney Nehra further encouraged TelexFree Investors to unknowingly participate in the evasion of federal and state securities laws.

373. Defendant Nehra accomplished this by representing that his extensive experience as an MLM expert and his thorough research of TelexFree's business model allowed him to form a legal opinion that TelexFree was a legitimate business.

374. In making this professional opinion Defendant Nehra misrepresented TelexFree as a legitimate business concern.

375. For instance, by instructing Investors to avoid using the terms "investment" with reference to AdCentral Package (See TelexFree Contract, Paragraph 2.6.5(m)), he attempted to conceal, and encouraged others to conceal, the fact that TelexFree was involved in the sale of securities, and further attempted to strip Investors of the rights afforded them by federal and state securities laws.

376. In advising TelexFree Investors to act to avoid the protections offered by federal and state securities laws, Attorney Nehra never once advised the putative class member TelexFree Investors that so acting presented a risk to them, including the risk of participating in an unlawful scheme.

377. In advising TelexFree Investors to act to avoid the protections offered by federal and state securities laws, Attorney Nehra never once advised the putative class member TelexFree Investors that so acting was against their own interests or that it better served TelexFree and himself.

378. Attorney Nehra's acts of aiding, abetting and playing an integral part in TelexFree's unlawful, unfair and deceptive acts and practices exceed the scope of zealously representing TelexFree.

379. Defendant Gerald Nehra contributed in an indispensable way to TelexFree's continued unlawful operation in the United States because, as a duly licensed member of the bar, he publicly stated to Investors that, in his professional opinion, TelexFree's business model and operations complied with federal and state laws.

380. TelexFree and its Officers knowingly used Attorney Nehra's false legal opinions and misrepresentations as a marketing tool to unfairly and deceptively further and advance their illegal Pyramid Ponzi Scheme.

381. Attorney Nehra knew that his legal opinions were false, and that his representations would be used by TelexFree as a marketing tool to further and advance their business model and illegal activities.

382. Attorney Nehra's opinions were packaged and promoted as part of TelexFree's total "post Brazilian shut down package" to the members of the putative class.

383. As described in greater detail throughout, in the early spring of 2013 TelexFree



Brazil was found to be an illegal pyramid and Ponzi scheme.

384. TelexFree suffered a financial crisis when the funds of hundreds of thousands of Brazilian affiliate investors were frozen in company accounts by order of the Brazilian Court.

385. To keep its Pyramid Ponzi Scheme ongoing, TelexFree needed a constant influx of new investor cash.

386. In spring 2013, TelexFree was forced to focus on new markets, including new Investors from the United States and Canada, because their Brazilian operation had been shuttered and all Brazilian assets were frozen. To enhance the credibility and marketability of their United States operation, TelexFree employed the Attorney Defendants to make their illegal and fraudulent methods, operation and business plan appear legitimate.

387. On the weekend of July 26th and 27, 2013, TelexFree held an event, which they dubbed a "super weekend," in Newport Beach, California. The focus of TelexFree's "super weekend" event included considerable efforts intended to reassure Investors that its United States operations and program were legitimate, lawful and worth putting their money behind.

388. Notwithstanding the fact that TelexFree's Brazilian bank accounts were frozen and all their Brazilian recruiting and Return on Investment payments had been suspended by court order in their largest affiliate market, Attorney Nehra advised attendees that the shut-down in Brazil would have no bearing on TelexFree's U.S. operations.

389. At this "super weekend" event, Attorney Nehra spoke at length to attending investors, assuring them of the legality of TelexFree's operation stating: *"It is legally designed...you are on very solid legal ground," and stating that TelexFree's operation had been "vetted by the Nehra and Waak law firm."*<sup>43</sup>

---

<sup>43</sup> "Gerry Nehra gives 'legal blessing' to TelexFree," Behind MLM (Aug. 2, 2013), <http://behindmlm.com/companies/telexfree/gerry-nehra-gives-legal-blessing-to-telexfree/>. The full length tape of his legal opinions and presentation can be found at: <http://www.psquad.com/gerald-nehra.html> (herein, "Nehra

390. In fact, when asked by a concerned affiliate about the injunction granted against the company, Attorney Nehra first deflected its relevance by stating: *"Okay, I am the MLM specialist and attorney for TelexFree in the United States only. So I gotta duck the question."*<sup>44</sup>

391. Attorney Nehra left no doubt that he and his firm were acting as legal counsel to TelexFree to assist them in insuring their U.S. operations were lawfully conducted, knowing that, in fact, these operations were nothing more than an illegal Pyramid Ponzi Scheme.

392. Although, at all times material herein, Attorney Nehra emphatically assured Investors and potential Investors that, in his professional opinion, the TelexFree business model was legitimate and lawful, he had actual knowledge that TelexFree's operation was unlawful and illegitimate.

393. Furthermore, at all times material herein, Attorney Nehra assured Investors and potential Investors that, in his professional opinion, the TelexFree business model was legitimate, although he had actual knowledge that TelexFree Multilevel Marketing Network "Partnerships"<sup>45</sup> involving TelexFree's AdCentral marketing packages were in fact unregistered securities. Attorney Nehra even provided advice on how to unlawfully circumvent federal and

\_\_\_\_ (continued)  
Endorsement")

<sup>44</sup> *Id.*, See Nehra Endorsement, supra, at 24:20.

<sup>45</sup> Paragraph 2.2.1 of the standard TelexFree Contract states *"Synthesis of the legal relationship:*

*The user, by accessing the website of TELEXFREE.COM can become a member through payment of the respective fee, which will provide access to the TelexFree Multilevel Marketing network for the period of one year, without extension or renewal. At this stage, the member is called a PARTNER. The PARTNER will have the right to acquire, at an exclusive discount, products that are offered on the website www.telexfree.com, with the principal VOIP telephony accounts called 99TELEXFREE. The PARTNER, upon acquiring them in the form of a kit (ADCENTRAL or FAMILY kit) assumes the title of PROMOTER and, as such, receives a space on the site www.telexfree.com to promote the products/services that he has acquired. He also receives training and access to materials also made available on the TELEXFREE website so that he can undertake to promote the latter and avail himself of the opportunity to be a PARTNER and PROMOTER to others in his circle of relationships. All activities are performed by the PARTNER/PROMOTER without any employment relationship, and they are able individually to manage the team and the resources it seeks to make available for such purpose, of their own free will. For the promotion of products/services he will receive a bonus in direct proportion to his results, based on the levels explained in a separate section in these GENERAL REGULATIONS.*

*He must obey all the clauses of these GENERAL REGULATIONS so that the name of TELEXFREE and the juridical persons associated with it remain unblemished."*

state securities laws.

394. In addition, and at all times material herein, Attorney Nehra assured Investors and potential Investors that, in his professional opinion, the TelexFree business model was legitimate and lawful, even though Attorney Nehra had specific knowledge of the ruling of the Brazilian Court and knowledge of and access to TelexFree's United States operations and their composition.

395. In fact, and more particularly, Attorney Nehra knew that:

- a. TelexFree used the exact same business model in Brazil as they do in the United States and throughout the world;
- b. The Brazilian court had made a specific finding of fraud and that TelexFree's United States operations and composition was an unlawful venture;
- c. The Brazilian court described Telex business operations in terms of the quintessential pyramid scheme after TelexFree's own lawyers unwittingly admitted as much;
- d. TelexFree's lawyer Djacir Falcão stated to the Brazilian court that if the injunction continues the company may enter into bankruptcy: *"Running the company really becomes difficult because of the court decision, so we will appeal,"* said Falcão<sup>46</sup>;
- e. Falcão tried to appeal to the Brazilian judges on the grounds that *"should the company spend a few more days being prohibited from signing up new investors, they would have no money to pay the old ones;"*
- f. A Brazilian judge rejected this argument and denied TelexFree's injunction appeal;
- g. TelexFree's other appeals were rejected by the Brazilian courts;

---

<sup>46</sup> Upon information and belief based upon quote in the newspaper Rio Branco, Tribune da Bahia so reported.

- h. One Brazilian judge remarked that the issue is that the earnings will be exhausted when the main source of revenue of the group (new affiliate registrations) stops;
- i. The above scenario is typically the result of a pyramid scheme;
- j. Judge Samoel Evangelista, 2nd Civil Chamber of the Court of Acre (TJ-AC), entered an order to keep the TelexFree funds frozen, to block future payments to TelexFree in Brazil and to enjoin TelexFree from signing on new investors in Brazil;
- k. According to Brazilian Judge Thais Kalil, how TelexFree earnings are paid out was advantageous to the prosecutor's argument, in that adding publishers to the network is of more importance than actually trying to sell the VoIP product;
- l. Judge Thais Kalil also wrote that *"(t)he issue is that the earnings will be exhausted when the main source of revenue of the group (new affiliate registrations) stops. Many (affiliates) do not even have the opportunity to recover their initial investment (minimum U.S. \$339) and this is detrimental."*

396. Defendant Nehra's own comments make clear that he knew that TelexFree was an unlawful pyramid Ponzi scheme.

397. Defendant Nehra knew at all times relevant to his providing legal opinions and counsel at the request of TelexFree that TelexFree's conduct constituted a breach of duty to its Investors.

398. Defendant Nehra knew at all times relevant to his providing legal opinions and counsel at the request of TelexFree that his role was intended to give substantial assistance or encouragement to TelexFree to continue its unlawful business model.

399. Defendant Nehra knew at all times relevant to his providing legal opinions at the

request of TelexFree that TelexFree intended to use Nehra prominently as a marketing tool on both their localized Brazilian (Portuguese) and Spanish (Spanish) website portals, in an effort to make TelexFree's illegal Pyramid Ponzi Scheme appear legitimate, thereby continuing and perpetuating the ongoing fraud.

400. TelexFree used Nehra's false legal opinions as a marketing tool to promote its illegal Pyramid Ponzi scheme on, *inter alia*, Brazilian (Portuguese) and Spanish/Dominican (Spanish) website portals.

401. The Defendant Nerha and the other Attorney Defendants know that these legal opinions were false, and that these false opinion were used by TelexFree to promote and perpetuate TelexFree's illegal Pyramid Ponzi Scheme.

402. In order to serve his own selfish and pecuniary interests, Attorney Nehra willfully aided, abetted, counseled, induced, and/or procured TelexFree's violations of law regarding the proper segregation and maintenance of customer funds, and acted in concert and combination with Defendant TelexFree in such violations.

403. Defendant Nehra gave substantial assistance to TelexFree in accomplishing a tortious and illegal result, and Nehra's own conduct, separately considered, constitutes a breach of duty to Investors since, *inter alia*, he:

- a. Knowingly misrepresented the legality and sustainability of TelexFree's operations to the detriment of Investors, and received fees from TelexFree for doing so;
- b. Knowingly obscured and obfuscated the illegal nature of TelexFree's scheme by the manipulative use of language, including, e.g., advising TelexFree that the use of the term "*investment*" must be avoided;
- c. Breached his duty of professional care to investors, by failing to exercise proper due diligence in investigating the legality of TelexFree's operations;

- d. Advised and encouraged Investors to evade United States securities laws to the benefit of TelexFree and detriment of the Investors and the public; and
- e. Engaged in a civil conspiracy to defraud TelexFree's investors by means of a Pyramid Ponzi Scheme, and, in fact, took a leading role in the scheme.<sup>47</sup>

404. Attorney Waak, as general partner and Principal Attorney of the Law Offices of Nehra and Waak, was aware of, oversaw, and, upon information and belief, participated in Attorney Nehra's tortious and illegal conduct with respect to the TelexFree Pyramid Ponzi Scheme.

405. Attorney Waak, as general partner and Principal Attorney of the Law Offices of Nehra and Waak, was aware of, oversaw, and, upon information and belief, participated in TelexFree Pyramid Ponzi Scheme.

**N. TELEXFREE'S CERTIFIED PUBLIC ACCOUNTANT AIDED, ABBETTED AND PLAYED AN INTERGRAL PART IN TELEXFREE'S UNLAWFUL, UNFAIR AND DECEPTIVE PYRAMID PONZI SCHEME**

406. As the Chief Financial Officer of TelexFree, Inc. and TelexFree, LLC, Defendant Craft, also known as Joe H. Craft, has been a certified public accountant and served as the Chief Financial Officer ("CFO") of Telex Free, Inc. and TelexFree, LLC.

407. Defendant Craft is also the sole Member and Manager of Craft Financial, an Indiana-based limited liability company.

408. Defendants Craft and Craft Financial are indistinguishable with regards to their involvement with the TelexFree Pyramid Ponzi Scheme.

409. Defendants Craft and Craft Financial knowingly participated in and perpetuated TelexFree's illegal Pyramid Ponzi Scheme.

---

<sup>47</sup> As stated by Justice William O. Douglas, "just as a fine natural football player needs coaching in the wiles of the sport, so, too, it takes a corporation lawyers with a heart for the game to organize a great stock swindle or income tax dodge and drill the financiers in all the precise details of their play." William O. Douglas, "Directors Who Do Not Direct," 47 Harv.L.Rev. 1305, 1329 (1934).

410. In his dual capacity as CFO and certified public accountant of TelexFree, Defendants Craft and Craft Financial have been responsible for, *inter alia*, preparing or approving TelexFree's financial statements, overseeing TelexFree's accounting methods and records, and otherwise exercising significant supervision and control over TelexFree.

411. On April 23, 2013, in response to a request for a profit-and-loss statement issued by the SOC, TelexFree produced a document purporting to be TelexFree's 2012 profit-and-loss statement.

412. As stated, on February 5, 2014, the SOC requested a second profit-and-loss statement from TelexFree for 2012, which TelexFree produced on February 26, 2014.

413. As stated, a comparison of these two profit-and-loss statements – each purporting to be TelexFree's profit-and-loss statement for 2012 – reveals massive discrepancies.

414. For example, the first statement provided by TelexFree lists Total Income for 2012 at \$1,864,939.70, while the second lists Total Income for 2012 at \$2,834,835.70.

415. As further examples, Agent Commission is listed at \$520,582.95 in the first, versus \$2,105,925.61 in the second; Total Expenses are listed as \$784,899.22 in the first, versus \$2,333,893.09 in the second; Net Operating Income is listed as \$1,080,040.48 in the first, versus \$478,251.56 in the second; and Net Income is listed as \$1,066,313.39 in the first, versus \$477,652.23 in the second.

416. The existence of duplicative accounting records containing egregious discrepancies is clear indicia of TelexFree's falsification of accounting records and failure to adhere to GAAP.

417. As CFO and certified public accountant for TelexFree, Inc. and TelexFree, LLC, as well as a certified public accountant, Defendants Craft and Craft Financial, knowingly perpetrated the TelexFree fraud by, *inter alia*:

- a. Overseeing TelexFree's creation of falsified accounting records;
- b. Failing to ensure that GAAP accounting methods were adopted and adhered to;
- c. Fraudulently certifying TelexFree's business operations and accounting practices as good and lawful, despite actual knowledge of their unlawful and illegitimate nature; and
- d. Conspiring with TelexFree's Officers to structure and perpetuate an illegal pyramid Ponzi scheme designed to defraud Investors and enrich themselves.

418. Defendants Craft and Craft Financial disseminated, and otherwise allowed to be disseminated, false and inaccurate financial information among Investors, knowing that such information was false and designed to continue and perpetuate the illegal Pyramid Ponzi Scheme.

419. In particular, Defendants Craft and Craft Financial authorized TelexFree to provide Investors with inaccurate and fraudulent 1099 (Miscellaneous Income) forms, in many cases long after the January 31, 2014 required deadline, and in an effort to misrepresent payments made to Investors and conceal assets.

420. The fact that these inaccurate 1099's are expected to be filed with the Internal Revenue Service and State Revenue Offices will impose further an undue and massive hardship upon investors.

421. Defendants also prepared false financial documents for affiliated TelexFree entities and prepared false tax returns for the affiliated TelexFree entities.

**O. THE BANKING INSTITUTION AND FINANCIAL SERVICES PROVIDER DEFENDANTS KNOWINGLY AIDED AND ABETTED TELEXFREE'S SCHEME AND RECEIVED FRAUDULENT TRANSFERS OF FUNDS**

422. During the course of the TelexFree Pyramid Ponzi Scheme, Defendants Bank of America, Bank of America, N.A., TD Bank, Citizens Financial, Citizens Bank, Fidelity Bank,



Middlesex Savings, Wells Fargo, Wells Fargo Bank, Fidelity Investments, Waddell & Reed Financial, Waddell & Reed, GPG, IPS, ProPay, Base Commerce, Vantage Payments, and the Doe Banks and Doe Payment Processors provided crucial financial services to TelexFree, which enabled TelexFree to carry on its Pyramid Ponzi scheme.

423. TelexFree's financial services providers, including the aforesaid banking institutions, investment service providers, and payment processing services providers, knowingly aided and abetted TelexFree's Pyramid Ponzi Scheme by, *inter alia*:

- a. Receiving transfers of funds from, and on behalf of, TelexFree in the course of TelexFree's fraudulent business, despite knowledge of the fraudulent nature of TelexFree's business enterprise;
- b. Receiving transfers of funds from TelexFree, its affiliated entities, and its executive officers, which transfers deepened TelexFree's insolvency, despite having knowledge of TelexFree's actual or imminent insolvency at the time of such transfers;
- c. Processing payments to, and on behalf of, TelexFree, including its affiliated entities and Management, in the course of TelexFree's fraudulent business, despite knowledge of the fraudulent nature of TelexFree's business enterprise; and
- d. Otherwise enabling the TelexFree Pyramid Ponzi Scheme to expand and continue by providing necessary financial services to TelexFree, despite actual knowledge of fraud on the part of TelexFree.

424. Defendants Bank of America, Bank of America, N.A., TD Bank, Citizens Financial, Citizens Bank, Fidelity Bank, Middlesex Savings, Wells Fargo, Wells Fargo Bank, (hereinafter sometimes collectively referred to as "Banking Institution Defendants") possessed

actual knowledge of the fraudulent nature of TelexFree's business operation, since at least June 2013.

425. Despite knowledge of the fraudulent nature of TelexFree's business operations, the Banking Institution Defendants continued to provide TelexFree with banking services.

426. In particular, upon information and belief, the Banking Institution Defendants received funds from Investors, which funds were then held for the benefit of TelexFree, its affiliated entities, and its Management.<sup>48</sup>

427. TelexFree's investors were directed by TelexFree, as part of TelexFree's "*signup procedures*," to transfer investment funds to accounts held by TelexFree at Bank of America and TD Bank.<sup>49</sup>

428. Indeed, Wells Fargo Bank maintained a depository account for TelexFree until March 14, 2014, long after TelexFree's Brazilian operation had been publicly exposed as a Pyramid Ponzi scheme and shutdown, and after a scam warning against TelexFree had been issued in the United Kingdom.<sup>50</sup>

429. Defendants Fidelity Investments, Waddell & Reed Financial, Waddell & Reed (sometimes referred to as the "Investment Service Provider Defendants) possessed actual knowledge of the fraudulent nature of TelexFree's business operation, since at least June 2013.

430. Despite knowledge of the fraudulent nature of TelexFree's business operations, the Investment Service Provider Defendants continued to provide TelexFree and the Officer

---

<sup>48</sup> See, e.g., check deposited by TelexFree into its account with Fidelity Ban, to wit, account number 211370707, attached herewith as Exhibit 14.

<sup>49</sup> See "*Signup procedures for TelexFREE*," attached herewith as Exhibit 15, also available at [http://www.buysellproducts.net/down/sign\\_up\\_procedures\\_for\\_telexfree.pdf](http://www.buysellproducts.net/down/sign_up_procedures_for_telexfree.pdf); See also PatrickPretty.com, "*TelexFree Affiliates Gave AdSurfDaily-Like Coaching Tips, Instructed Prospects to Make Deposits at Bank of America[...]*TelexFree Also May Have TD Bank Account," <http://patrickpretty.com/2013/07/08/telexfree-affiliates-gave-adsurfdaily-like-coaching-tips-instructed-prospects-to-make-deposits-at-bank-of-america-and-to-copy-slips-to-team-leaders-gmail-address-for-expedited-service-t/> (July 8, 2013) (including screen shot of TelexFree bank transfer instructions).

<sup>50</sup> See Declaration of Stuart A. MacMillan, Case No. 14-125234-ABL, Doc. 121, par. 12, attached herewith as Exhibit 16.

Defendants with both personal and business investment services.<sup>51</sup>

431. Furthermore, the Banking Institution Defendants and Investment Service Provider Defendants also received large transfers of funds from TelexFree, its affiliated entities, and its Management, during which time TelexFree was insolvent, despite knowledge of the fraudulent nature of TelexFree's business operations, thereby deepening TelexFree's insolvency and assisting TelexFree and its Management in concealing assets.<sup>52</sup>

432. Defendants GPG, IPS, Propay, Base Commerce, Vantage Payments, and the Doe Payment Processors (hereinafter sometimes collectively referred to as "Payment Processing Services Companies" or "PPSC Defendants") possessed actual knowledge of the fraudulent nature of TelexFree's business operations since at least June 2013.

433. Despite knowledge of the fraudulent nature of TelexFree's business operations, the PPSC Defendants continued to provide TelexFree with payment processing services.<sup>53</sup>

434. More particularly, the PPSC Defendants processed payments by Investors to TelexFree in the course of TelexFree's fraudulent business operations, which funds were then held for the benefit of TelexFree, its affiliated entities, and its Management.

435. Upon information and belief, the PPSC Defendants also processed large transfers of funds from TelexFree, its affiliated entities, and its Management, to Banking Institution Defendants and other receivers, during which time TelexFree was insolvent, despite knowledge of the fraudulent nature of TelexFree's business operations, thereby deepening TelexFree's insolvency and assisting TelexFree and its Management in concealing assets.

436. The PPSC Defendants received payment of substantial fees in return for providing

---

<sup>51</sup> See TelexFree, LLC Balance Sheet as of December 31, 2013, marked as Exhibit 13; see also Declaration of Stuart A. MacMillan, Case No. 14-125234-ABL, Doc. 121, par. 14, attached herewith as Exhibit 16.

<sup>52</sup> *Id.*

<sup>53</sup> *Id.*; see also Omnibus Declaration of William H. Runge, Case No. 14-125234-ABL, Doc. 13, par. 61, attached herewith as Exhibit 6.

these services.

437. More particularly, IPS provided TelexFree with a service titled “e-Wallet,” which was used by TelexFree to process electronic transfers of funds by Investors to TelexFree.

438. According to a TelexFree balance sheet, dated December 31, 2013, posted by the Washington State Utilities and Transportation Commission, as of December 31, 2013, TelexFree claimed \$31,640,192.30 in assets then held by IPS (under the brand name “e-Wallet”) on behalf of TelexFree.<sup>54</sup>

439. Defendants GPG, Base Commerce, and Vantage Payments, also processed electronic transfers of funds by Investors to TelexFree.

440. Defendant ProPay, which also does business as Propay.com, also processed such electronic transfers of funds on behalf of TelexFree.

441. Furthermore, upon information and belief, ProPay processed transfers of funds by and on behalf of TelexFree, its affiliated entities, and its Management, during which time TelexFree was insolvent, despite knowledge of the fraudulent nature of TelexFree’s business operations, thereby deepening TelexFree’s insolvency and assisting TelexFree and its Management in concealing assets.

**P. DOE INSIDER PROMOTERS**

442. Although they remain unknown to the Putative Class Representatives and will remain unknown until discovery has been exchanged, certain promoters were provided with inside information by Defendants and in fact acted as agents servants of the Defendants.

443. The Putative Class Representatives seek to obtain damages, restitution and injunctive relief for the Class, as defined, below, from Defendants.

**CLASS ACTION ALLEGATIONS**

444. Pursuant to Rule 23 of the Federal Rules of Civil Procedure, Plaintiffs bring this

---

<sup>54</sup> See TelexFree, LLC Balance Sheet as of December 31, 2013, marked as Exhibit 13.

action on their own behalf, and on behalf of all other persons similarly situated ("the Class").

The Class that Plaintiffs seek to represent is:

All persons who tendered funds to TelexFree between 1/1/2012 and April 15, 2014 and who did not recoup the amount of money they originally invested. Excluded from the Class are the Defendants and their officers, directors, and employees of Defendant; any entity in which Defendant have a controlling interest; the co conspirators, so called insider promoters, legal representatives, attorneys, heirs, and assigns of the Defendants.

445. Plaintiffs meet the requirements of Federal Rules of Civil Procedures 23(a) because the members of the Class are so numerous that the joinder of all members is impractical. While the exact number of Class members is unknown to Plaintiffs at this time, based on information and belief, it is in the hundreds of thousands.

446. Plaintiffs meet the requirements of Federal Rules of Civil Procedures 23(a) because there is a well-defined community of interest among the members of the Class, common questions of law and fact predominate, Plaintiffs' claims are typical of the members of the Class, and Plaintiffs can fairly and adequately represent the interests of the Class.

447. This action satisfies the requirements of Federal Rule of Civil Procedure 23(b)(3) because it involves questions of law and fact common to the member of the Class that predominate or any questions affecting only individual members, including, but not limited to:

- a. Whether the contract under which TelexFree claims to invoke the application of Nevada law is illegal and unenforceable as a matter of law.
- b. Whether the contract under which TelexFree claims to invoke the application of Nevada law is otherwise void and unenforceable as a matter of law.
- c. Whether TelexFree ran a Pyramid Ponzi Scheme;
- d. Whether TelexFree ran a lawful Multi-Level Marketing program;
- e. Whether TelexFree offered and sold securities in the form of unregistered

investment contracts constituting securities.

- f. Whether the other Defendants aided and abetted TelexFree in the sale of unregistered securities in violation of the law;
- g. Whether Defendant Officers, Named Insider Promoters, Doe Inside Promoters, Doe Paralegal, Banks and Financial Institutions, Payment Processing Services Companies, Retained Licensed Professionals and Doe Banks knew that TelexFree was an illegal pyramid-type Ponzi scheme which involved the illegal sale of securities, continued to aid, abet and further such illegal activities or are otherwise liable for the economic loss suffered by the Putative Class.;
- h. Whether TelexFree's financial services providers, including the aforesaid banking institutions and payment processing services providers, knowingly aided and abetted TelexFree's Pyramid Ponzi Scheme;
- i. Whether Massachusetts Blue Sky Laws will apply to the claims of the Putative Class;
- j. Whether TelexFree and the other Defendants used and employed manipulative and deceptive devices and contrivances in violation of MGL 110A, Sec. 410; used means and instrumentalities, directly and indirectly, in connection with the purchase and sale of unregistered securities; and used and employed manipulative and deceptive devices and contrivances in violation of, *inter alia*, the Massachusetts Uniform Securities Act, MGL c. 110A, Section 410b, MGL 110A, Sec. 410(b) and MGL 93A.
- k. Whether TelexFree and the other Defendants also violated Title 17, Code of Federal Regulations, Section 240.10b-5 by (a) employing devices,

schemes, and artifices to defraud; (b) making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, and (c) engaging in acts, practices, and courses of business which operated and would operate as a fraud and deceit upon persons.

- l. Whether Defendants violated Section 1965 of the Racketeer Influenced and Corrupt Organizations Act [18 U.S.C. § 1965];
- m. Whether TelexFree mailed fraudulent and inaccurate 1099 (Miscellaneous Income) forms to investors;
- n. Whether the 1099 (Miscellaneous Income) forms should be declared void as a matter of law or otherwise because they were provided long after the mandated January 31, 2014 deadline, and some after the April 15, 2014 filing deadline.
- o. Whether Plaintiff and the Class are entitled to damages, civil penalties, punitive damages, and/or injunctive relief.

448. Plaintiffs' claims are typical of those of other Class members because Plaintiffs were defrauded by the Defendants' scheme to fraudulently offer and sell unregistered securities; Plaintiffs will fairly and accurately represent the interests of the Class.

449. The prosecution of separate actions by individual members of the Class would create a risk of inconsistent or varying adjudications with respect to individual members of the Class, which would establish incompatible standards of conduct for the Defendants and would lead to repetitive adjudication of common questions of law and fact. Accordingly, class treatment is superior to any other method for adjudicating the controversy. Plaintiffs know of no difficulty

that will be encountered in the management of this litigation that would preclude its maintenance as a class action under Rule 23(b)(3).

450. Damages for any individual class member are likely insufficient to justify the cost of individual litigation, so that in the absence of class treatment, the Defendants' violations of law inflicting substantial damages in the aggregate would go un-remedied without certification of the Class.

451. the Defendants have acted or refused to act on grounds that apply generally to the class, as alleged above, and certification is proper under Rule 23(b)(2).

#### **FIRST CLAIM FOR RELIEF**

#### **(FOR VIOLATIONS OF SECTION 10(B) OF THE SECURITIES AND EXCHANGE ACT OF 1934 AND SECURITIES AND EXCHANGE COMMISSION RULE 10B-5 -AGAINST DEFENDANTS TELEXFREE, MERRILL, WANZELER, LABRIOLA, CRAFT, COSTA, RODRIGUES; WWW GLOBAL BUSINESS, INC.; DE LA ROSA; CROSBY; SLOAN, DOE INSIDER PROMOTERS, AND OTHERS)**

452. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

453. During the class period, Defendants, directly and indirectly, by the use of means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a scheme and a continuous course of conduct to make materially false and misleading statements about the TelexFree investment dealings, financial condition and operations and to conceal adverse material information about these investments.

454. Defendants employed devices, schemes, and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and courses of conduct, as alleged herein, including the following: (1) making or participating in the making of untrue statements of material facts; (2) omitting to state the material facts necessary to make the statements about the investments not misleading; and (3) engaging in transactions, practices, and a course of business which operated as a fraud and deceit upon investors during the Class Period.



455. Each of the said Defendants offered and sold securities by means of fraudulent misrepresentations and intentional omissions of material facts concerning the securities.

456. Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such misrepresentations and/or omissions were done knowingly or recklessly for the purpose and effect of concealing the true information about the investments, including their financial condition and operations.

457. Defendants received information reflecting the true facts regarding the investment and TelexFree's business practices, exercised control over and/or receipt of the materially misleading misstatements and/or their association with the investment and made them privy to confidential proprietary information concerning these investments. Because of their control and/or association with the investment, Defendants were active and culpable participants in the fraudulent scheme.

458. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to Investors.

459. The ongoing fraudulent scheme described herein could not have been perpetrated over a substantial period of time, without the knowledge and complicity of Defendants.

460. As a result of the dissemination of materially false and misleading information and the failure to disclose material facts, as set forth above, Investors paid artificially inflated prices for worthless membership interests in the investment during the Class Period.

461. In ignorance of the materially false and misleading nature of the reports and statements described above, Plaintiffs and the other Class members relied, to their detriment, on Defendants for complete and accurate information about these investments.

462. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act, and Rule 10 b-5 promulgated there under, and Plaintiffs and the Class have been damaged thereby, in an amount to be proven at trial.

**SECOND CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF SECTION 20(A) OF THE SECURITIES AND EXCHANGE ACT 1934 AND SECTION 15 OF THE SECURITIES ACT OF 1933 AGAINST DEFENDANTS MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, WAAK, NEHRA, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC AND RICHARD W. WAAK, ATTORNEY AT LAW, PLLC)**

463. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

464. At the time of the wrongs alleged herein, Defendants Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC and Richard W. Waak, Attorney at Law, PLLC, were each a controlling person of TelexFree within the meaning of Section 20(a) of the Exchange Act.

465. By reason of their respective positions of authority, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Richard W. Waak, Attorney at Law, PLLC and Gerald P. Nehra, Attorney at Law, PLLC had the power and authority to influence and control, and did influence and control, the decision-making and activities of TelexFree and the affiliated TelexFree Entities and caused them to engage in the wrongful conduct described herein. Defendants, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Nehra, Law Offices of Nehra and Waak, Richard W. Waak, Attorney at Law, PLLC and Gerald P. Nehra, Attorney at Law, PLLC, exercised control to cause the dissemination of false and misleading statements and omissions of material facts.

466. Defendants Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Richard W. Waak, Attorney at Law, PLLC and Gerald P. Nehra, Attorney at Law, PLLC also materially aided in the sale of TelexFree AdCentral packages, which constitute securities, by actively promoting such

467. By virtue of their positions as controlling persons, and as a result of the aforementioned conduct, Defendants are liable under Section 20(a) of the Exchange Act.

**THIRD CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF SECTIONS 5 AND 12(A)(L) OF**

**THE SECURITIES ACT OF 1933 AGAINST DEFENDANTS TELEXFREE, MERRILL, WANZELER, LABRIOLA, CRAFT, COSTA, AND OTHERS)**

468. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

469. The Securities Act prohibits sale or delivery after sale of an unregistered security.

470. Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, the Insider Promoter Does and others failed to file a true Registration Statement for TelexFree under the 1933 Act.

471. A Registration Statement must include the following: (1) the entity's properties and business, (2) a full description of the offered security, (3) information about the management of the entity, and (4) a financial statement certified by an independent auditor. None of these were provided.

472. By omitting this information, Defendants filed a false Form D.

473. Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, the Insider Promoter Does and others also did not apply for or receive an exemption under Regulation D.

474. Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, the Insider Promoter Does and others failed to provide to Plaintiffs access to the information that they were required to provide, including audited financial statements.

475. Plaintiffs purchased these securities without knowledge of the failure of Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, the Insider Promoter Does and others to file the required Registration Statement or receive an exemption therefrom.

476. Plaintiffs would not have purchased the securities if Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, the Insider Promoter Does and others provided the information required in a Registration Statement.

477. By virtue of the foregoing, Plaintiffs have been damaged and are entitled to damages, including rescission, and other relief for violations by Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, the Insider Promoter Does and others of Sections 5 and 12(a)(1) of the Securities Act of 1933 alleged herein.

**FOURTH CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF SECTION 11 OF THE SECURITIES ACT OF 1933  
AGAINST DEFENDANTS TELEXFREE, MERILL, WANZELER, LABRIOLA, CRAFT,  
CRAFT FINANCIAL, COSTA, WAAK, NEHRA, LAW OFFICES OF NEHRA AND  
WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC AND RICHARD W.  
WAAK, ATTORNEY AT LAW, PLLC)**

478. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

479. During the class period, Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Richard W. Waak, Attorney at Law, PLLC and Gerald P. Nehra, Attorney at Law, PLLC, fraudulently failed to convey facts material to the TelexFree AdCentral investment packages by failing to produce and file a Registration Statement.

480. In particular, they said Defendants intentionally avoided the requirement to produce a Registration Statement, and intentionally avoided disclosing that the AdCentral packages were, in fact, investments, and that financial returns on the AdCentral investments were derived from the proceeds received from the purchase of such investments, and not from the sale of the VoIP product.

481. Said Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein.

482. Such misrepresentations and/or omissions were done knowingly for the purpose and effect of concealing the true information about the investments, including their financial condition and operations.

483. Said Defendants received information reflecting the true facts regarding the investment and TelexFree's business practices, exercised control over and/or receipt of the materially misleading misstatements and/or their association with the investment and made them privy to confidential proprietary information concerning these investments.

484. Because of their control and/or association with the investment, Defendants were active and culpable participants in the fraudulent scheme.

485. Said Defendants knew and recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to Investors.

486. The ongoing fraudulent scheme described herein could not have been perpetrated over a substantial period of time without the knowledge and complicity of the Defendants.

487. As a result of failure to disclose material facts, as set forth above, including their failure to file the requisite registration material, Investors paid artificially inflated prices for worthless membership interests in the investment during the Class Period.

488. By virtue of the foregoing, said Defendants have violated Section 11 of the Securities Act, and Plaintiffs and the Class have been damaged thereby, in an amount to be proven at trial.

**FIFTH CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF SECTION 12(A)(2) OF  
THE SECURITIES ACT OF 1933 AGAINST DEFENDANTS TELEXFREE, MERRILL,  
WANZELER, LABRIOLA, CRAFT, COSTA, AND OTHERS)**

489. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

490. Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa and others participated in the sale of securities to Plaintiffs that were unregistered and not exempt from registration.

491. At the time of their investments, Plaintiffs had no knowledge that the investments offered by Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, the Insider Promoter Does and others were subject to registration requirements.

492. In fact, Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa and others knew or reasonably should have known that the TelexFree Agreement Contract and investment scheme was subject to the registration requirement of the Securities Act.

493. Both the Telex Contract and related materials distributed to Plaintiffs and the oral communications with Plaintiffs contained material omissions and misstatements.

494. Plaintiffs had no knowledge of the falsity of these statements or of the material

omissions in the written materials including, but not limited to, Accounting Statements prepared by the accounting Defendants and other misrepresentations made by Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa and others as described above. Plaintiffs reasonably believed such statements were true.

495. Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa and others knew, or in the exercise of reasonable diligence, should have known, of the untruths and omissions.

496. Plaintiffs would not have purchased the securities if they had this knowledge.

497. As a result of these investments, Plaintiffs have been damaged.

498. Plaintiffs are entitled to rescind their purchases and recover the value of their interest in TelexFree. Plaintiffs seek rescission of their purchase of membership interests in TelexFree.

#### **SIXTH CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF MASSACHUSETTS GENERAL LAWS, CHAPTER 110A, SECTION 410(A) AGAINST DEFENDANTS TELEXFREE, MERRILL, WANZELER, LABRIOLA, CRAFT, COSTA, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA, CROSBY, SLOAN, AND THE DOE INSIDER PROMOTERS)**

499. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

500. During the Class Period, Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Costa, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan, and the Doe Insider Promoters offered and sold securities to the Plaintiffs by means of a scheme and a continuous course of conduct to make materially false and misleading statements about the TelexFree investment dealings, financial condition and operations and to conceal adverse material information about these investments.

501. Said Defendants employed devices, schemes, and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and courses of conduct, as alleged herein, including the following: (1) making or participating in the making of untrue statements of material facts; (2) omitting to state the material facts necessary to

make the statements about the investments not misleading; and (3) engaging in transactions, practices, and a course of business which operated as a fraud and deceit upon investors during the Class Period.

502. Each of the said Defendants offered and sold securities by means of fraudulent misrepresentations and intentional omissions of material facts concerning the securities.

503. Said Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such misrepresentations and/or omissions were done knowingly or recklessly for the purpose and effect of concealing the true information about the investments, including their financial condition and operations.

504. Said Defendants received information reflecting the true facts regarding the investment and TelexFree's business practices, exercised control over and/or receipt of the materially misleading misstatements and/or their association with the investment and made them privy to confidential proprietary information concerning these investments. Because of their control and/or association with the investment, Defendants were active and culpable participants in the fraudulent scheme.

505. Said Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to Investors.

506. The ongoing fraudulent scheme described herein could not have been perpetrated over a substantial period of time without the knowledge and complicity of the said Defendants.

507. As a result of the dissemination of materially false and misleading information and the failure to disclose material facts, as set forth above, Investors paid artificially inflated prices for worthless membership interests in the investment during the Class Period.

508. In ignorance of the materially false and misleading nature of the reports and statements described above, Plaintiffs and the other Class members relied, to their detriment, on said Defendants for complete and accurate information about these investments.

509. By virtue of the foregoing, said Defendants have violated Section 410(a) of the

Massachusetts Uniform Securities Act, M.G.L. c. 110A, and Plaintiffs have been damaged thereby, in an amount to be proven at trial.

**SEVENTH CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF MASSACHUSETTS GENERAL LAWS, CHAPTER 110A, SECTION 410(B) AGAINST DEFENDANTS MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, NEHRA, LAW OFFICES OF NEHRA AND WAAK, RICHARD W. WAAK, ATTORNEY AT LAW, PLLC AND GERALD P. NEHRA, ATTORNEY AT LAW, PLLC, AND OTHERS)**

510. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

511. At the time of the wrongs alleged herein, Defendants Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Richard W. Waak, Attorney at Law, PLLC, Gerald P. Nehra, Attorney at Law, PLLC and others were each a controlling person, partner, officer, director, person occupying a similar status, or employee materially aiding in the sale of securities, of TelexFree within the meaning of Section 410(b) of the Massachusetts Uniform Securities Act, M.G.L. c. 110A.

512. By reason of their respective positions of authority, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC, Richard W. Waak, Attorney at Law, PLLC and others had the power and authority to influence and control, and did influence and control, the decision-making and activities of TelexFree and the affiliated TelexFree entities and caused them to engage in the wrongful conduct described herein. Defendants Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Richard W. Waak, Attorney at Law, PLLC and Gerald P. Nehra, Attorney at Law, PLLC exercised control to cause the dissemination of false and misleading statements and omissions of material facts.

513. By virtue of their positions as controlling person and top-level promoters, and as a result of the aforementioned conduct, Defendants are liable under Section 20(a) of the Exchange Act.

514. Plaintiffs seek the award of actual damages on behalf of the Class.



**EIGHTH CLAIM FOR RELIEF**

**(NEGLIGENCE AGAINST ALL DEFENDANTS)**

515. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

516. At all times material herein, Defendants owned a duty to Plaintiffs to act with a level of care to avoid misstating TelexFree's financial information or its returns; and to comply with all applicable laws concerning TelexFree, including, without limitation, federal and state securities laws.

517. By virtue of misstating and omitting relevant financial information, including the returns to Promoter/Investors, TelexFree breached its duty of care owed to Plaintiffs, the Putative Class Plaintiffs and similarly situated Plaintiffs.

518. As a direct and proximate result of Defendants' negligence and carelessness, Plaintiffs, the Putative Class Plaintiffs and similarly situated Plaintiffs have been caused to suffer and sustain damages and losses.

**NINTH CLAIM FOR RELIEF**

**(NEGLIGENT MISREPRESENTATION AGAINST DEFENDANTS TELEXFREE, MERILL, WANZELER, LABRIOLA, COSTA, CRAFT, CRAFT FINANCIAL, COSTA, NEHRA, LAW OFFICES OF NEHRA AND WAAK, RICHARD W. WAAK, ATTORNEY AT LAW, PLLC AND GERALD P. NEHRA, ATTORNEY AT LAW, PLLC, RODRIGUES, DE LA ROSA, CROSBY, AND SLOAN)**

519. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

520. Defendants, TelexFree, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC, Richard W. Waak, Attorney at Law, PLLC and others, directly and through their agents, servants, employees and/or representatives, did negligently make false representations of material fact to the said Plaintiffs, with said misrepresentations being made for the purpose of obtaining and/or wrongfully appropriating and converting money from Plaintiffs.

521. Said Defendants made negligent representations although Defendants knew, or

should have known, that such representations were false.

522. Said representations and statements were material and were relied upon by the said Plaintiffs, inducing them to furnish money to Defendants.

523. In consequence of said reliance on the negligent misrepresentations, the said Plaintiffs have suffered great financial losses, and have also incurred considerable expenses and loss of income, and have otherwise been greatly damaged.

#### **TENTH CLAIM FOR RELIEF**

#### **(INTENTIONAL MISREPRESENTATION AGAINST DEFENDANTS TELEXFREE, MERILL, WANZELER, LABRIOLA, COSTA, CRAFT, CRAFT FINANCIAL, COSTA, NEHRA, LAW OFFICES OF NEHRA RICHARD W. WAAK, ATTORNEY AT LAW, PLLC AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC RODRIGUES, DE LA ROSA, CROSBY, AND SLOAN, DOE INSIDER PROMOTERS, AND OTHERS)**

524. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

525. Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Waak, Nehra, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC, Richard W. Waak, Attorney at Law, PLLC Rodrigues, De La Rosa, Crosby, And Sloan, Doe Insider Promoters and others directly and through their agents, servants, employees and/or representatives, did intentionally make false representations of material fact to the said Plaintiffs with said misrepresentations being made for the purpose of obtaining and/or wrongfully appropriating and converting money from Plaintiffs. ]

526. Defendants made said intentional misrepresentations although Defendants knew that such representations were false.

527. Said representations and statements were material and were relied upon by the said Plaintiffs, inducing them to furnish money to Defendants.

528. In consequence of said reliance on the intentional misrepresentations, the said Plaintiffs have suffered great financial losses, and have also incurred considerable expenses and loss of income, and have otherwise been greatly damaged.

#### **ELEVENTH CLAIM FOR RELIEF**

**(PROFESSIONAL MALPRACTICE AGAINST DEFENDANTS CRAFT, CRAFT FINANCIAL, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC AND RICHARD W. WAAK, ATTORNEY AT LAW, PLLC)**

529. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

530. At all times material herein, Defendant Craft, Craft Financial, Nehra, Waak, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC and Richard W. Waak, Attorney at Law, PLLC, were the providers of professional accounting and legal services.

531. The said Defendants had a duty to perform these services in conformance with the skill and knowledge normally possessed by members of the accounting and legal professions, using good, known, and accepted customs and practices of the these professions.

532. The said Defendants breached their duty to Plaintiffs by negligently certifying and representing to Plaintiffs and the public that the business model and operations of TelexFree were legal, proper, and economically viable and sustainable, when in fact TelexFree's business model and operations constituted an illegal and unsustainable Ponzi scheme.

533. The said Defendants further failed to exercise proper due diligence in the discharge of their investigatory duties as certified public accountants and attorneys of TelexFree.

534. Furthermore, Defendants Craft and Craft Financial negligently failed to ensure that TelexFree maintained proper accounting records.

535. As a result of the professional negligence of said Defendants, Plaintiffs and the public were misled to belief that TelexFree were legal, proper, and economically viable and sustainable.

536. As a direct and proximate consequence of the aforementioned negligence of the said Defendants, Plaintiffs sustained injuries and losses.

**TWELFTH CLAIM FOR RELIEF**

**(BREACH OF FIDUCIARY DUTY AGAINST DEFENDANTS TELEXFREE, MERILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW,**

**PLLC AND RICHARD W. WAAK, ATTORNEY AT LAW, PLLC)**

537. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

538. Defendants TelexFree, Merrill, Wanzeler, Labriola, Costa, Craft, Craft Financial, Costa, Nehra, Waak, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC and Richard W. Waak, Attorney at Law, PLLC and others owe to Plaintiffs, a duty of utmost good faith and fair dealing.

539. The said Defendants violated their duty by actively misrepresenting and fraudulently failing to convey facts material to the TelexFree AdCentral investment packages, including:

- a. Providing false and misleading information as to the nature of TelexFree business operation;
- b. Misrepresenting the financial statements;
- c. Providing false and misleading information as to the value of the AdCentral Package;
- d. Providing false and misleading information as to the method and source from which income was derived;
- e. Providing false and misleading information as to the legality of TelexFree's business model;
- f. Providing false and misleading information as to the sustainability of the returns to Promoter/Investors;
- g. Providing false and misleading information regarding the investigation in Brazil and subsequent closure of TelexFree's Brazilian operations,
- h. Knowingly participating in false and deceptive information televised over the internet and other media;
- i. Concealing the fact that the AdCentral Packages were actually securities;
- j. Failing to comply with federal and state securities laws; and
- k. Employing legal and accountant counsel to mask their illegal and fraudulent activities in an effort to further and perpetuate such illegal fraudulent activities.

540. Said Defendants had actual knowledge of the fraudulent and deceptive misrepresentations and omissions of material facts set forth herein.

541. Such misrepresentations and/or omissions were done knowingly for the purpose and effect of concealing the true information about the investments, including their financial condition and operations.

542. Said Defendants received information reflecting the true facts regarding the investment and TelexFree's business practices, exercised control over and/or receipt of the materially misleading misstatements and/or their association with the investment and made them privy to confidential proprietary information concerning these investments.

543. Because of their control and/or association with the investment, Defendants were active and culpable participants in the fraudulent scheme.

544. Said Defendants knew and recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to Investors.

545. Said Defendants, through the aforesaid fraudulent and deceptive misrepresentations and omissions of material facts, breached their fiduciary duties of care and loyalty to Plaintiffs.

546. As a result of the foregoing breach of fiduciary duty by Defendants, Investors paid artificially inflated prices for worthless membership interests in the investment during the Class Period.

#### **THIRTEENTH CLAIM FOR RELIEF**

#### **(BREACH OF THE COVENANT OF GOOD FAITH AND FAIR DEALING AGAINST DEFENDANTS TELEXFREE, MERILL, WANZELER, LABRIOLA, COSTA, CRAFT, CRAFT FINANCIAL, COSTA, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC AND RICHARD W. WAAK, ATTORNEY AT LAW, PLLC AND OTHERS)**

547. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

548. Defendants owed to Plaintiffs a duty of utmost good faith and fair dealing, and thereby were obligated to consider the welfare of Plaintiffs and refrain from acting for purely selfish motives or private gain.

549. Defendants violated their duty by actively misrepresenting and fraudulently

failing to convey facts material to the TelexFree AdCentral investment packages, including:

- a. Providing false and misleading information as to the nature of TelexFree business operation;
- b. Misrepresenting the financial statements;
- c. Providing false and misleading information as to the value of the AdCentral Package;
- d. Providing false and misleading information as to the method and source from which income was derived;
- e. Providing false and misleading information as to the legality of TelexFree's business model;
- f. Providing false and misleading information as to the sustainability of the returns to Promoter/Investors;
- g. Providing false and misleading information regarding the investigation in Brazil and subsequent closure of TelexFree's Brazilian operations,
- h. Knowingly participating in false and deceptive information televised over the internet and other media;
- i. Concealing the fact that the AdCentral Packages were actually securities;
- j. Failing to comply with federal and state securities laws; and
- k. Employing legal and accountant counsel to mask their illegal and fraudulent activities in an effort to further and perpetuate such illegal fraudulent activities.

550. Said Defendants had actual knowledge of the fraudulent and deceptive misrepresentations and omissions of material facts set forth herein.

551. Such misrepresentations and/or omissions were made knowingly for the purpose and effect of concealing the true information about the investments, including their financial condition and operations.

552. Said Defendants received information reflecting the true facts regarding the investment and TelexFree's business practices, exercised control over and/or receipt of the materially misleading misstatements and/or their association with the investment and made them privy to confidential proprietary information concerning these investments.

553. Because of their control and/or association with the investment, said Defendants were active and culpable participants in the fraudulent scheme.

554. Said Defendants knew and recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to Investors.

555. Said Defendants, through the aforesaid fraudulent and deceptive misrepresentations and omissions of material facts, breached their covenant of good faith and fair dealing owed to the Plaintiffs.

556. As a result of the foregoing breach of the covenant of good faith and fair dealing by said Defendants, Investors paid artificially inflated prices for worthless membership interests in the investment during the Class Period.

#### **FOURTEENTH CLAIM FOR RELIEF**

#### **(UNJUST ENRICHMENT AGAINST DEFENDANTS TELEXFREE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA CROSBY, SLOAN, DOE INSIDER PROMOTERS AND OTHERS)**

557. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

558. Plaintiffs furnished funds, directly or indirectly, to Defendants TelexFree, Merrill, Wanderer, Labriola, Craft, Craft Financial, Costa, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan and others, which funds were accepted by Defendants without protest or

defect.

559. Said Defendants have unlawfully and in bad faith denied Plaintiffs access to such funds, and have instead retained the benefit of such funds for themselves.

560. As a direct and proximate result of the foregoing actions of said Defendants, as hereinabove set forth, the said Defendants are, and continue to be, unjustly enriched.

**FIFTEENTH CLAIM FOR RELIEF**

**(FRAUD AGAINST DEFENDANTS TELEXFREE, MERILL, WANZELER, LABRIOLA, COSTA, CRAFT, CRAFT FINANCIAL, COSTA, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC AND RICHARD W. WAAK, ATTORNEY AT LAW, PLLC, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA, CROSBY, SLOAN, AND OTHERS)**

561. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

562. Defendants TelexFree, Merrill, Wanzeler, Labriola, Costa, Craft, Craft Financial, Costa, Nehra, Waak, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC and Richard W. Waak, Attorney at Law, PLLC, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan and others repeatedly misrepresented and intentionally failed to convey to Plaintiffs facts material to the TelexFree AdCentral investment packages.

563. Said Defendants' fraudulent misrepresentations and omissions include, *inter alia*:
- a. Providing false and misleading information as to the nature of TelexFree business operation;
  - b. Misrepresenting the financial statements;
  - c. Providing false and misleading information as to the value of the AdCentral Package;
  - d. Providing false and misleading information as to the method and source from which income was derived;
  - e. Providing false and misleading information as to the legality of TelexFree's business model;
  - f. Providing false and misleading information as to the sustainability of the



returns to Promoter/Investors;

- g. Providing false and misleading information regarding the investigation in Brazil and subsequent closure of TelexFree's Brazilian operations,
- h. Knowingly participating in false and deceptive information televised over the internet and other media;
- i. Concealing the fact that the AdCentral Packages were actually securities;
- j. Failing to comply with federal and state securities laws; and
- k. Employing legal and accountant counsel to mask their illegal and fraudulent activities in an effort to further and perpetuate such illegal fraudulent activities.

564. Defendants had actual knowledge of the fraudulent and deceptive misrepresentations and omissions of material facts set forth herein.

565. Such misrepresentations and/or omissions were done knowingly for the purpose and effect of concealing the true information about the investments, including their financial condition and operations.

566. Defendants received information reflecting the true facts regarding the investment and TelexFree's business practices, exercised control over and/or receipt of the materially misleading misstatements and/or their association with the investment and made them privy to confidential proprietary information concerning these investments.

567. Because of their control and/or association with the investment, Defendants were active and culpable participants in the fraudulent scheme.

568. Defendants knew and recklessly disregarded the falsity and misleading nature of the information that they caused to be disseminated to Investors.

569. The ongoing fraudulent scheme described herein could not have been perpetrated over a substantial period of time, without the knowledge and complicity of Defendants.

570. As a result of the foregoing fraud perpetrated by Defendants, Investors paid artificially inflated prices for worthless membership interests in the investment during the Class Period.

**SIXTEENTH CLAIM FOR RELIEF**

**(AIDING AND ABETTING FRAUD AGAINST DEFENDANTS TELEXELECTRIC, TELEX MOBILE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA, CROSBY, SLOAN, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC, RICHARD W. WAAK, ATTORNEY AT LAW, PLLC, BANK OF AMERICA, BANK OF AMERICA, N.A., TD BANK, CITIZENS FINANCIAL, CITIZENS BANK, FIDELITY BANK, MIDDLESEX SAVINGS, WELLS FARGO, WELLS FARGO BANK, FIDELITY INVESTMENTS, WADDELL & REED FINANCIAL, WADDELL & REED, GPG, IPS, PROPAY, BASE COMMERCE, VANTAGE PAYMENTS, AND THE DOE DEFENDANTS)**

571. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

572. Defendants TelexElectric, Telex Mobile, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Rodrigues, Www Global Business, De La Rosa, Crosby, Sloan, Nehra, Waak, Law Offices Of Nehra And Waak, Gerald P. Nehra, Attorney At Law, PLLC, Richard W. Waak, Attorney At Law, PLLC, Bank Of America, Bank Of America, N.A., TD Bank, Citizens Financial, Citizens Bank, Fidelity Bank, Middlesex Savings, Wells Fargo, Wells Fargo Bank, Fidelity Investments, Waddell & Reed Financial, Waddell & Reed, GPG, IPS, ProPay, Base Commerce, Vantage Payments, and The Doe Defendants actively and substantially assisted in the commission of the TelexFree fraud.

573. Said Defendants rendered such substantial assistance despite their knowledge that TelexFree's operations constituted an illegal and unsustainable pyramid Ponzi scheme and financial fraud.

574. Such substantial assistance rendered by said Defendants despite their knowledge of the fraudulent nature of TelexFree's operations, include, *inter alia*:

- a. Managing and controlling TelexFree and its affiliated entities;
- b. Providing accounting services to TelexFree;
- c. Providing legal services to TelexFree;

- d. Publicly certifying that TelexFree's business model and operations were legal, proper, and economically viable and sustainable;
- e. Providing banking, investment and asset management services for TelexFree and its management;
- f. Promoting TelexFree AdCentral packages;
- g. Processing payments to, from, and on behalf of TelexFree and its affiliated entities; and
- h. Processing payments for transfers of funds which deepened TelexFree's insolvency.

575. As a direct and proximate result of TelexFree's fraud, to which the said Defendants provided substantial assistance, Plaintiffs sustained damages and losses.

#### **SEVENTEENTH CLAIM FOR RELIEF**

**(COMMON LAW FRAUDULENT TRANSFER AGAINST DEFENDANTS  
TELEXFREE, TELEXELECTRIC, TELEX MOBILE, MERRILL, WANZELER,  
LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, BANK OF AMERICA, BANK OF  
AMERICA, N.A., TD BANK, CITIZENS FINANCIAL, CITIZENS BANK, FIDELITY  
BANK, MIDDLESEX SAVINGS, WELLS FARGO, WELLS FARGO BANK, FIDELITY  
INVESTMENTS, WADDELL & REED FINANCIAL, WADDELL & REED, GPG, IPS,  
PROPAY, BASE COMMERCE, VANTAGE PAYMENTS, DOE BANKS, DOE  
PAYMENT PROCESSORS, PARALEGAL DOE AND OTHERS)**

576. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

577. Plaintiffs, at all times material herein, were and are creditors of Defendant TelexFree.

578. Defendants TelexFree, TelexElectric, Telex Mobile, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Bank of America, Bank of America, N.A., TD Bank, Citizens Financial, Citizens Bank, Fidelity Bank, Middlesex Savings, Wells Fargo, Wells Fargo Bank, Fidelity Investments, Waddell & Reed Financial, Waddell & Reed, GPG, IPS, ProPay, Base Commerce, Vantage Payments, Doe Banks, Doe Payment Processors, Paralegal Doe and Others have knowingly made or accepted transfers of funds owed to Plaintiffs.

579. Such transfers were made or accepted with intent to hinder, delay, and/or defraud Plaintiffs.

580. More particularly, such transfers were made in an attempt to dissipate, convert and conceal funds that are lawfully due to Plaintiffs.

581. As a result of such fraudulent transfers, Plaintiffs have suffered, or will imminently suffer, damages and losses.

**EIGHTEENTH CLAIM FOR RELIEF**

**(DEEPENING INSOLVENCY AGAINST DEFENDANTS TELEXFREE, TELEXELECTRIC, TELEX MOBILE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, BANK OF AMERICA, BANK OF AMERICA, N.A., TD BANK, CITIZENS FINANCIAL, CITIZENS BANK, FIDELITY BANK, MIDDLESEX SAVINGS, WELLS FARGO, WELLS FARGO BANK, FIDELITY INVESTMENTS, WADDELL & REED FINANCIAL, WADDELL & REED, GPG, IPS, PROPAY, BASE COMMERCE, VANTAGE PAYMENTS, DOE BANKS, DOE PAYMENT PROCESSORS, PARALEGAL DOE AND OTHERS)**

582. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

583. Plaintiffs, at all times material herein, were and are creditors of Defendant, TelexFree.

584. Defendants TelexFree, TelexElectric, Telex Mobile, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Bank of America, Bank of America, N.A., TD Bank, Citizens Financial, Citizens Bank, Fidelity Bank, Middlesex Savings, Wells Fargo, Wells Fargo Bank, Fidelity Investments, Waddell & Reed Financial, Waddell & Reed, GPG, IPS, ProPay, Base Commerce, Vantage Payments, Doe Banks, Doe Payment Processors, Paralegal Doe and Others have knowingly made or accepted transfers of funds owed to Plaintiffs, which transfers deepened TelexFree's insolvency.

585. Such transfers were made in an attempt to dissipate, convert and conceal funds that are lawfully due to Plaintiffs.

586. Such transfers have greatly decreased the probable extent of recovery by Plaintiff

creditors.

587. As a result of such fraudulent transfers, Plaintiffs have suffered, or will imminently suffer, damages and losses.

**NINETEENTH CLAIM FOR RELIEF**

**(CIVIL CONSPIRACY AGAINST DEFENDANTS TELEXFREE, TELEXELECTRIC, TELEX MOBILE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA, CROSBY, SLOAN, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC AND RICHARD W. WAAK, ATTORNEY AT LAW, PLLC, DOE INSIDER PROMOTERS, AND OTHERS)**

588. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

589. Defendants TelexFree, TelexElectric, Telex Mobile, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan, Nehra, Waak, Law Offices of Nehra And Waak, Gerald P. Nehra, Attorney at Law, PLLC, Richard W. Waak, Attorney at Law, PLLC, Doe Insider Promoters, and Others have combined to enter into a civil conspiracy, for an unlawful purpose and using unlawful means, with the intent of so combining to unlawfully defraud Plaintiffs out of funds.

590. In consequence of the foregoing, Plaintiffs sustained damages and losses.

**TWENTIETH CLAIM FOR RELIEF**

**(CONVERSION AGAINST DEFENDANTS TELEXFREE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, RODRIGUES, WWW GLOBAL BUSINESS, DE LA ROSA, CROSBY, SLOAN, DOE INSIDER PROMOTERS, AND OTHERS)**

591. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

592. Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan, Doe Insider Promoters, and Others have unlawfully converted Plaintiffs' funds, by obtaining the same through knowing misrepresentations made to Plaintiffs and the public.

593. Said Defendants continue to retain funds unlawfully converted from Plaintiffs.

594. In consequence of the foregoing, Plaintiffs sustained damages and losses.

**TWENTY-FIRST CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF MASSACHUSETTS GENERAL LAWS, CHAPTER 93A, SECTION 2 AGAINST DEFENDANTS TELEXFREE, TELEXELECTRIC, TELEX MOBILE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA, CROSBY, SLOAN, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC, RICHARD W. WAAK, ATTORNEY AT LAW, PLLC, BANK OF AMERICA, BANK OF AMERICA, N.A., TD BANK, CITIZENS FINANCIAL, CITIZENS BANK, FIDELITY BANK, MIDDLESEX SAVINGS, WELLS FARGO, WELLS FARGO BANK, FIDELITY INVESTMENTS, WADDELL & REED FINANCIAL, WADDELL & REED, GPG, IPS, PROPAY, BASE COMMERCE, VANTAGE PAYMENTS, AND THE DOE DEFENDANTS)**

595. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

596. At all times material herein, Defendants, TelexFree, TelexElectric, Telex Mobile, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan, Nehra, Waak, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC, Richard W. Waak, Attorney at Law, PLLC, Bank of America, Bank Of America, N.A., TD Bank, Citizens Financial, Citizens Bank, Fidelity Bank, Middlesex Savings, Wells Fargo, Wells Fargo Bank, Fidelity Investments, Waddell & Reed Financial, Waddell & Reed, GPG, IPS, ProPay, Base Commerce, Vantage Payments, and the Doe Defendants were engaged in Trade and Commerce as defined by Massachusetts General Laws Chapter 93A, Section 1.

597. At all times material herein, Plaintiffs were engaged in Trade and Commerce as defined by Massachusetts General Laws Chapter 93A, Section 1.

598. The foregoing transactions, actions and inactions of the said Defendants constitute unfair and deceptive acts and practices as defined by, and in violation of, Massachusetts General Laws, Chapter 93A § 11.

599. In consequence of the said Defendants' unfair and deceptive acts and practices, Plaintiffs have suffered great financial losses, and have also incurred considerable expenses and loss of income, and have otherwise been greatly damaged.

**TWENTY-SECOND CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF THE RACKETEER INFLUENCED AND CORRUPT ORGANIZATIONS ACT, UNITED STATES CODE, TITLE 18, SECTION 1962 AGAINST DEFENDANTS TELEXFREE, TELEXELECTRIC, TELEX MOBILE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, COSTA, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA, CROSBY, SLOAN, NEHRA, WAAK, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC, RICHARD W. WAAK, ATTORNEY AT LAW, PLLC, BANK OF AMERICA, BANK OF AMERICA, N.A., TD BANK, CITIZENS FINANCIAL, CITIZENS BANK, FIDELITY BANK, MIDDLESEX SAVINGS, WELLS FARGO, WELLS FARGO BANK, FIDELITY INVESTMENTS, WADDELL & REED FINANCIAL, WADDELL & REED, GPG, IPS, PROPAY, BASE COMMERCE, VANTAGE PAYMENTS, AND THE DOE DEFENDANTS)**

600. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

601. At all times material herein, Defendants TelexFree, TelexElectric, Telex Mobile, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Costa, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan, Nehra, Waak, Law Offices of Nehra and Waak, Gerald P. Nehra, Attorney at Law, PLLC, Richard W. Waak, Attorney at Law, PLLC, Bank of America, Bank Of America, N.A., TD Bank, Citizens Financial, Citizens Bank, Fidelity Bank, Middlesex Savings, Wells Fargo, Wells Fargo Bank, Fidelity Investments, Waddell & Reed Financial, Waddell & Reed, GPG, IPS, ProPay, Base Commerce, Vantage Payments, and the Doe Defendants were associated in an enterprise as defined by 18 U.S.C. 1961(4).

602. Such enterprise was engaged in unlawful and illegal activities, including, *inter alia*, securities fraud and financial fraud, as set forth more fully throughout this Complaint, and which made use of the means and instrumentalities of interstate commerce and which crossed jurisdictional lines.

603. Throughout their involvement with such enterprise, the said Defendants engaged in a pattern of securities fraud, financial fraud, and other illegal and wrongful behavior, comprising numerous instances of such illegal and wrongful behavior.

604. Such illegal and wrongful behavior constitutes "racketeering activity" as defined by 18 U.S.C. 1961(1).

605. The said Defendants were aware of the illegal and fraudulent nature of the enterprise.

606. The said Defendants each actively participated in the enterprise and its pattern of racketeering activity.

607. The said Defendants each received income, directly or indirectly, as a result of the enterprise and its pattern of racketeering activity.

608. The said Defendants did further conspire to engage in such pattern of racketeering activity.

609. In consequence of the said Defendants' unlawful enterprise and pattern of racketeering activity Plaintiffs have suffered great financial losses, and have also incurred considerable expenses and loss of income, and have otherwise been greatly damaged.

**TWENTY-THIRD CLAIM FOR RELIEF**

**(FOR VIOLATIONS OF THE LANHAM ACT, UNITED STATES CODE, TITLE 15, SECTION 1125 AGAINST DEFENDANTS TELEXFREE, MERRILL, WANZELER, LABRIOLA, CRAFT, CRAFT FINANCIAL, RODRIGUES, WWW GLOBAL BUSINESS, INC., DE LA ROSA, CROSBY, SLOAN, COSTA, WAAK, NEHRA, LAW OFFICES OF NEHRA AND WAAK, GERALD P. NEHRA, ATTORNEY AT LAW, PLLC, RICHARD W. WAAK, ATTORNEY AT LAW, PLLC, AND DOE INSIDER PROMOTERS)**

610. Plaintiffs incorporate by reference all allegations set forth in all previous paragraphs, as if the same were specifically set forth herein.

611. As set forth more particularly throughout this Complaint, and in direct violation of the Lanham Act, 15 U.S.C. § 1125, the Defendants TelexFree, Merrill, Wanzeler, Labriola, Craft, Craft Financial, Rodrigues, WWW Global Business, De La Rosa, Crosby, Sloan, Costa, Waak, Nehra, Law Offices of Nehra And Waak, Gerald P. Nehra, Attorney at Law, PLLC, Richard W. Waak, Attorney at Law, PLLC, and Doe Insider Promoters have used false or misleading descriptions of material fact, and false and/or misleading representation of material fact, in promoting and selling TelexFree's AdCentral investment packages and VoIP products.

612. In so doing, said Defendants made use of the means and instrumentalities of interstate commerce and crossed jurisdictional lines.

613. Said Defendants have also used false and/or misleading descriptions of material fact, and false or misleading representations of material fact, in characterizing the nature of



TelexFree's business operations, returns on investment, and the legality of the investments.

614. Said Defendants' false and/or misleading descriptions of material fact, and false or misleading representations of material fact, did actually deceive, or have the tendency to deceive, both Plaintiffs and the public.

615. As direct and proximate result of the false and misleading advertisements disseminated by said Defendants, Investors paid artificially inflated prices for worthless membership interests in the investment during the Class Period.

### **CONCLUSION**

WHEREFORE, Plaintiffs, on behalf of themselves and the Class, pray for judgment as follows:

1. Declaring this action to be a Class Action properly maintained pursuant to the Federal Rules of Civil Procedure and certifying Plaintiffs as the class representatives;

2. Awarding Plaintiffs and Class members rescission and/or compensatory damages against Defendants for all damages sustained as a result of their wrongdoing, in an amount to be proven at trial, including interest;

3. For an award of actual damages, compensatory damages, statutory damages, and statutory penalties, in an amount to be determined;

4. For an award of punitive damages;

5. For an award of costs of suit and attorneys' fees, as allowable by law;

6. For an award of interest;

7. For the appointment of a receiver selected by Class Counsel and an accounting;  
and

8. For an award to Plaintiffs and the Class such other and further relief as may be just and proper under the circumstances including equitable relief.

### **DEMAND FOR JURY TRIAL**

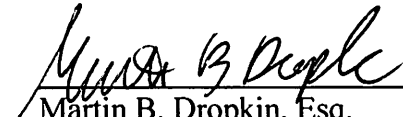
Plaintiffs hereby demand a jury trial of their claims to the extent authorized by law.

However, the Plaintiffs do not consent to trial by jury in the United States Bankruptcy Court.

Respectfully submitted,

Dated this 15<sup>th</sup> day of May, 2014.

**Dropkin & Matza, LLP**

  
\_\_\_\_\_  
Martin B. Dropkin, Esq.  
B.B.O. # 136120  
Dropkin & Matza, LLP  
424 Broadway  
Somerville, MA 02145  
(P) 617-623-4600  
(F) 617-623-7315  
[mdropkin@dropkinmatza.com](mailto:mdropkin@dropkinmatza.com)

*Attorneys for Anthony Cellucci, Jamilly  
Lake and Gerivaldo Pacheco – putative  
class representatives and those similarly  
situated*

JS 44 (Rev. 11/04)

## CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

## I. (a) PLAINTIFFS

Anthony Cellucci, Jamilly Lake, and Gerivaldo Pacheco - Putative Class Representatives and  
 Those Similarly Situated Middlesex  
 (b) County of Residence of First Listed Plaintiff Middlesex  
 (EXCEPT IN U.S. PLAINTIFF CASES)

## DEFENDANTS

TelexFree, Inc., f/k/a Common Cents Communications, Inc., TelexFree, LLC, TelexFree Financial, Inc., et al. Middlesex  
 County of Residence of First Listed Defendant Middlesex  
 (IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE LAND INVOLVED.

Attorneys (If Known)

(c) Attorney's (Firm Name, Address, and Telephone Number)

Law Offices of Frank N. Dardeno, LLP  
 424 Broadway, Somerville, MA 02145

## II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

- ☐ 1 U.S. Government Plaintiff ☒ 3 Federal Question (U.S. Government Not a Party)
- ☐ 2 U.S. Government Defendant ☐ 4 Diversity (Indicate Citizenship of Parties in Item III)

## III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)

- |   | PTF                        | DEF                        |   | PTF                        | DEF                        |
|---|----------------------------|----------------------------|---|----------------------------|----------------------------|
| Citizen of This State                   | <input type="checkbox"/> 1 | <input type="checkbox"/> 1 | Incorporated or Principal Place of Business In This State     | <input type="checkbox"/> 4 | <input type="checkbox"/> 4 |
| Citizen of Another State                | <input type="checkbox"/> 2 | <input type="checkbox"/> 2 | Incorporated and Principal Place of Business In Another State | <input type="checkbox"/> 5 | <input type="checkbox"/> 5 |
| Citizen or Subject of a Foreign Country | <input type="checkbox"/> 3 | <input type="checkbox"/> 3 | Foreign Nation  | <input type="checkbox"/> 6 | <input type="checkbox"/> 6 |

## IV. NATURE OF SUIT (Place an "X" in One Box Only)

CONTRACT	TORTS	FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES
<input type="checkbox"/> 110 Insurance <input type="checkbox"/> 120 Marine <input type="checkbox"/> 130 Miller Act <input type="checkbox"/> 140 Negotiable Instrument <input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment <input type="checkbox"/> 151 Medicare Act <input type="checkbox"/> 152 Recovery of Defaulted Student Loans (Excl. Veterans) <input type="checkbox"/> 153 Recovery of Overpayment of Veteran's Benefits <input type="checkbox"/> 160 Stockholders' Suits <input type="checkbox"/> 190 Other Contract <input type="checkbox"/> 195 Contract Product Liability <input type="checkbox"/> 196 Franchise	<b>PERSONAL INJURY</b> <input type="checkbox"/> 310 Airplane <input type="checkbox"/> 315 Airplane Product Liability <input type="checkbox"/> 320 Assault, Libel & Slander <input type="checkbox"/> 330 Federal Employers' Liability <input type="checkbox"/> 340 Marine <input type="checkbox"/> 345 Marine Product Liability <input type="checkbox"/> 350 Motor Vehicle <input type="checkbox"/> 355 Motor Vehicle Product Liability <input type="checkbox"/> 360 Other Personal Injury <b>PERSONAL INJURY</b> <input type="checkbox"/> 362 Personal Injury - Med. Malpractice <input type="checkbox"/> 365 Personal Injury - Product Liability <input type="checkbox"/> 368 Asbestos Personal Injury Product Liability <b>PERSONAL PROPERTY</b> <input type="checkbox"/> 370 Other Fraud <input type="checkbox"/> 371 Truth in Lending <input type="checkbox"/> 380 Other Personal Property Damage <input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 610 Agriculture <input type="checkbox"/> 620 Other Food & Drug <input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881 <input type="checkbox"/> 630 Liquor Laws <input type="checkbox"/> 640 R.R. & Truck <input type="checkbox"/> 650 Airline Regs. <input type="checkbox"/> 660 Occupational Safety/Health <input type="checkbox"/> 690 Other	<input checked="" type="checkbox"/> 422 Appeal 28 USC 158 <input type="checkbox"/> 423 Withdrawal 28 USC 157 <b>PROPERTY RIGHTS</b> <input type="checkbox"/> 820 Copyrights <input type="checkbox"/> 830 Patent <input type="checkbox"/> 840 Trademark <b>SOCIAL SECURITY</b> <input type="checkbox"/> 861 HIA (1395ff) <input type="checkbox"/> 862 Black Lung (923) <input type="checkbox"/> 863 DIWC/DIWW (405(g)) <input type="checkbox"/> 864 SSID Title XVI <input type="checkbox"/> 865 RSI (405(g)) <b>FEDERAL TAX SUITS</b> <input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant) <input type="checkbox"/> 871 IRS—Third Party 26 USC 7609	<input type="checkbox"/> 400 State Reapportionment <input type="checkbox"/> 410 Antitrust <input type="checkbox"/> 430 Banks and Banking <input type="checkbox"/> 450 Commerce <input type="checkbox"/> 460 Deportation <input type="checkbox"/> 470 Racketeer Influenced and Corrupt Organizations <input type="checkbox"/> 480 Consumer Credit <input type="checkbox"/> 490 Cable/Sat TV <input type="checkbox"/> 810 Selective Service <input type="checkbox"/> 850 Securities/Commodities/Exchange <input type="checkbox"/> 875 Customer Challenge 12 USC 3410 <input type="checkbox"/> 890 Other Statutory Actions <input type="checkbox"/> 891 Agricultural Acts <input type="checkbox"/> 892 Economic Stabilization Act <input type="checkbox"/> 893 Environmental Matters <input type="checkbox"/> 894 Energy Allocation Act <input type="checkbox"/> 895 Freedom of Information Act <input type="checkbox"/> 900 Appeal of Fee Determination Under Equal Access to Justice <input type="checkbox"/> 950 Constitutionality of State Statutes
<b>REAL PROPERTY</b> <input type="checkbox"/> 210 Land Condemnation <input type="checkbox"/> 220 Foreclosure <input type="checkbox"/> 230 Rent Lease & Ejectment <input type="checkbox"/> 240 Torts to Land <input type="checkbox"/> 245 Tort Product Liability <input type="checkbox"/> 290 All Other Real Property	<b>CIVIL RIGHTS</b> <input type="checkbox"/> 441 Voting <input type="checkbox"/> 442 Employment <input type="checkbox"/> 443 Housing/Accommodations <input type="checkbox"/> 444 Welfare <input type="checkbox"/> 445 Amer. w/Disabilities - Employment <input type="checkbox"/> 446 Amer. w/Disabilities - Other <input type="checkbox"/> 440 Other Civil Rights	<b>PRISONER PETITIONS</b> <input type="checkbox"/> 510 Motions to Vacate Sentence <b>Habeas Corpus:</b> <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty <input type="checkbox"/> 540 Mandamus & Other <input type="checkbox"/> 550 Civil Rights <input type="checkbox"/> 555 Prison Condition		

## V. ORIGIN

(Place an "X" in One Box Only)

- ☒ 1 Original Proceeding ☐ 2 Removed from State Court ☐ 3 Remanded from Appellate Court ☐ 4 Reinstated or Reopened ☐ 5 Transferred from another district (specify) ☐ 6 Multidistrict Litigation ☐ 7 Appeal to District Judge from Magistrate Judgment

## VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity):

15 U.S.C. 77e et seq.; 18 U.S.C. 1962; 15 U.S.C. 1125

Brief description of cause:

Securities fraud, unfair and deceptive business practices, RICO violation

## VII. REQUESTED IN COMPLAINT:

☒ CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23

DEMAND \$ 300,000,000

CHECK YES only if demanded in complaint:

JURY DEMAND: ☒ Yes ☐ No

## VIII. RELATED CASE(S) IF ANY

(See instructions):

JUDGE

Melvin S. Hoffman

DOCKET NUMBER

4:14-BK-40987

DATE

5/14/2014

SIGNATURE OF ATTORNEY OF RECORD

FOR OFFICE USE ONLY

RECEIPT #

AMOUNT

APPLYING IFP

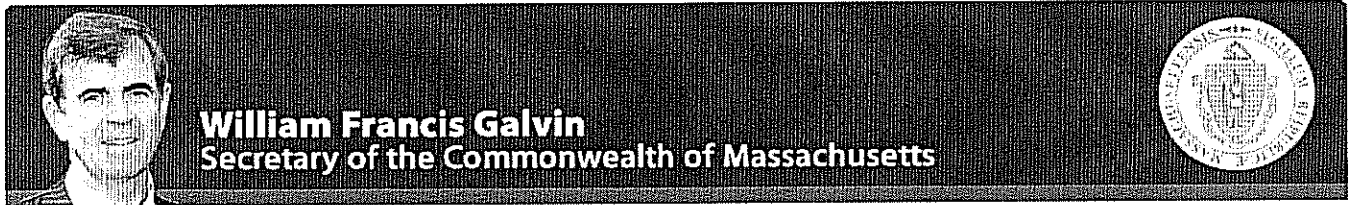
JUDGE

MAG. JUDGE

---

# EXHIBIT 1

---



## Corporations Division

### Business Entity Summary

ID Number: 000832397

[Request certificate](#)

[New search](#)

Summary for: **TELEXFREE, INC.**

<b>The exact name of the Domestic Profit Corporation:</b> TELEXFREE, INC.		
<b>The name was changed from:</b> COMMON CENTS COMMUNICATIONS, INC. <b>on</b> 02-15-2012		
<b>Entity type:</b> Domestic Profit Corporation		
<b>Identification Number:</b> 000832397		
<b>Date of Organization in Massachusetts:</b> 12-31-2002		
<b>Last date certain:</b>		
<b>Current Fiscal Month/Day:</b> 12/31		
<b>The location of the Principal Office:</b>  Address: 225 CEDAR HILL ST SUITE 200 City or town, State, Zip code, MARLBOROUGH, MA 01752 USA Country:		
<b>The name and address of the Registered Agent:</b>  Name: JAMES MERRILL Address: 225 CEDAR HILL ST SUITE 200 City or town, State, Zip code, MARLBOROUGH, MA 01752 USA Country:		
<b>The Officers and Directors of the Corporation:</b>		
Title	Individual Name	Address
PRESIDENT	JAMES MERRILL	4705 S DURANDO DR # 100 - J51 LAS VEGAS, NV 89147 USA
TREASURER	CARLOS WANZELER	4705 S DURANDO DR # 100 - J51 LAS VEGAS, NV 89147 USA
SECRETARY	JAMES MERRILL	4705 S DURANDO DR # 100 - J51 LAS VEGAS, NV 89147 USA
DIRECTOR	JAMES MERRILL	4705 S DURANDO DR # 100 - J51 LAS VEGAS, NV 89147 USA
DIRECTOR	CARLOS WANZELER	4705 S DURANDO DR # 100 LAS VEGAS, NV 89147 USA

**Business entity stock is publicly traded:**

**The total number of shares and the par value, if any, of each class of stock which this business entity is authorized to issue:**

Class of Stock	Par value per share	Total Authorized		Total issued and outstanding
		No. of shares	Total par value	No. of shares
CNP	\$ 0.00	275,000	\$ 0.00	0

☐ Consent

☐ Confidential Data

☐ Merger Allowed

☐ Manufacturing

**View filings for this business entity:**

ALL FILINGS  
Administrative Dissolution  
Annual Report  
Application For Revival  
Articles of Amendment  
Articles of Certificate of Incorporation



[View filings](#)

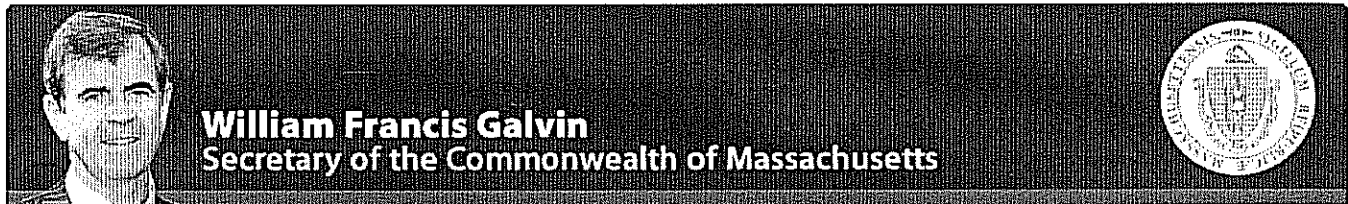
**Comments or notes associated with this business entity:**

[New search](#)

---

# EXHIBIT 2

---



## Corporations Division

### Business Entity Summary

ID Number: 001105166

[Request certificate](#)

[New search](#)

Summary for: **TELEXFREE LLC**

<b>The exact name of the Foreign Limited Liability Company (LLC):</b> TELEXFREE LLC		
<b>Entity type:</b> Foreign Limited Liability Company (LLC)		
<b>Identification Number:</b> 001105166		<b>Old ID Number:</b>
<b>Date of Registration in Massachusetts:</b> 04-18-2013		
<b>Last date certain:</b>		
<b>Organized under the laws of:</b> State: NV <b>Country:</b> USA <b>on:</b> 07-19-2012		
<b>The location of the Principal Office:</b>  Address: 4705 S. DURANGO DR., #100-J51 City or town, State, Zip code, LAS VEGAS, NV 89147 USA Country:		
<b>The location of the Massachusetts office, if any:</b>  Address: 225 CEDAR HILL ST., STE 200 City or town, State, Zip code, MARLBOROUGH, MA 01742 USA Country:		
<b>The name and address of the Resident Agent:</b>  Name: JAMES M. MERRILL Address: 225 CEDAR HILL ST., SUITE 200 City or town, State, Zip code, MARLBOROUGH, MA 01742 USA Country:		
<b>The name and business address of each Manager:</b>		
Title	Individual name	Address
MANAGER	CARLOS COSTA	225 CEDAR HILL ST. STE. 200 MARLBOROUGH, MA 01742 USA
MANAGER	JAMES M. MERRILL	225 CEDAR HILL ST. STE. 200 MARLBOROUGH, MA 01742 USA
MANAGER	CARLOS N. WANZELER	225 CEDAR HILL ST. STE. 200 MARLBOROUGH, MA 01742 USA



**The name and business address of the person(s) authorized to execute, acknowledge, deliver, and record any recordable instrument purporting to affect an interest in real property:**

Title	Individual name	Address
REAL PROPERTY	CARLOS COSTA	225 CEDAR HILL ST. STE. 200 MARLBOROUGH, MA 01742 USA
REAL PROPERTY	JAMES M. MERRILL	225 CEDAR HILL ST. STE. 200 MARLBOROUGH, MA 01742 USA
REAL PROPERTY	CARLOS WANZELER	225 CEDAR HILL ST. STE. 200 MARLBOROUGH, MA 01742 USA



**Consent**



**Confidential  
Data**



**Merger  
Allowed**



**Manufacturing**

**View filings for this business entity:**

ALL FILINGS  
Annual Report  
Annual Report - Professional  
Application For Registration  
Certificate of Amendment  
Certificate of Cancellation



**View filings**

**Comments or notes associated with this business entity:**

**New search**

---

# EXHIBIT 3

---

**FLORIDA DEPARTMENT OF STATE  
DIVISION OF CORPORATIONS**



## Detail by Entity Name

### Florida Profit Corporation

TELEXFREE FINANCIAL, INC

### Filing Information

Document Number	P13000101842
FEI/EIN Number	NONE
Date Filed	12/27/2013
State	FL
Status	ACTIVE
Effective Date	12/26/2013

### Principal Address

2321 NW 37TH AVE  
COCONUT CREEK, FL 33063

### Mailing Address

2321 NW 37TH AVE  
COCONUT CREEK, FL 33063

### Registered Agent Name & Address

WANZELER, CARLOS  
2321 NW 37TH AVE  
COCONUT, FL 33063

### Officer/Director Detail

#### **Name & Address**

Title P

MERRILL, JAMES  
4705 S DURANGO DR #100-J51  
LAS VEGAS, NV 89147

Title VP

WANZELER, CARLOS  
4705 S DURANGO DR #100-J51  
LAS VEGAS, NV 89147

Title SEC

MERRILL, JAMES

4705 S DURANGO DR #100-J51  
LAS VEGAS, NV 89147

Title TREA

WANZELER, CARLOS  
4705 S DURANGO DR #100-J51  
LAS VEGAS, NV 89147

Title DIR

MERRILL, JAMES  
4705 S DURANGO DR #100-J51  
LAS VEGAS, NV 89147

Title DIR

WANZELER, CARLOS  
4705 S DURANGO DR #100-J51  
LAS VEGAS, NV 89147

#### **Annual Reports**

**No Annual Reports Filed**

#### **Document Images**

12/27/2013 -- Domestic Profit [View image in PDF format](#)

[Copyright ©](#) and [Privacy Policies](#)

State of Florida, Department of State

---

# EXHIBIT 4

---



# TELEXELECTRIC LLLP

[New Search](#)

[Manage this Business \(/businessSearch/manageT7Business?businessEntityNumber=E0576002013-4\)](#)

[Calculate Fees](#)

[Print \(\)](#)

Business Entity Information			
Status:	Active	File Date:	12/02/2013
Type:	Domestic Ltd-Liability Ltd Partnership	Entity Number:	E0576002013-4
Qualifying State:	NV	List of Officers Due:	12/31/2014
Managed By:		Expiration Date:	12/31/2599
Foreign Name:		On Admin Hold:	No
NV Business ID:	NV20131697440	Business License Exp:	12/31/2014

Additional Information	
	Central Index Key

Registered Agent Information			
Name:	BWFC PROCESSING CENTER, LLC	Address 1:	3960 HOWARD HUGHES PKWY STE 500
Address 2:		City:	LAS VEGAS
State:	NV	Zip Code:	89169
Phone:		Fax:	
Mailing Address 1:		Mailing Address 2:	
Mailing City:		Mailing State:	NV
Mailing Zip Code:			
Agent Type:	Commercial Registered Agent - Limited-Liability Corporation		
Jurisdiction:	NEVADA	Status:	Active
<a href="#">View all business entities under this registered agent ()</a>			

Officers		<input type="checkbox"/> Include Inactive Officers	
General Partner - JAMES MERRILL			
Address 1:	4705 S DURANGO DR #100-J1	Address 2:	
City:	LAS VEGAS	State:	NV
Zip Code:	89147	Country:	USA
Status:	Active	Email:	
General Partner - CARLOS WANZELER			
Address 1:	4705 S DURANGO DR #100-J1	Address 2:	
City:	LAS VEGAS	State:	NV
Zip Code:	89147	Country:	USA
Status:	Active	Email:	

Actions/Amendments
<a href="#">Click here to view 4 actions/amendments associated with this company ()</a>

[Disclaimer \(\)](#)

---

# EXHIBIT 5

---



# TELEX MOBILE HOLDINGS, INC.

[New Search](#)   
 [Manage this Business \(/businessSearch/manageT7Business?businessEntityNumber=E0571492013-6\)](#)   
 [Calculate Fees](#)   
 [Print \(\)](#)

Business Entity Information			
Status:	Active	File Date:	11/26/2013
Type:	Domestic Corporation	Entity Number:	E0571492013-6
Qualifying State:	NV	List of Officers Due:	11/30/2014
Managed By:		Expiration Date:	
Foreign Name:		On Admin Hold:	No
NV Business ID:	NV20131692153	Business License Exp:	11/30/2014

Additional Information	
Central Index Key	

Registered Agent Information			
Name:	BWFC PROCESSING CENTER, LLC	Address 1:	3960 HOWARD HUGHES PKWY STE 500
Address 2:		City:	LAS VEGAS
State:	NV	Zip Code:	89169
Phone:		Fax:	
Mailing Address 1:		Mailing Address 2:	
Mailing City:		Mailing State:	NV
Mailing Zip Code:			
Agent Type:	Commercial Registered Agent - Limited-Liability Corporation		
Jurisdiction:	NEVADA	Status:	Active

View all business entities under this registered agent ()

Financial Information			
No Par Share Count:	0	Capital Amount:	\$ 75,000.00
Par Share Count:	75,000,000.00	Par Share Value:	\$ .001

Officers		<input type="checkbox"/> Include Inactive Officers	
President - JAMES M MERRILL			
Address 1:	4705 S DURANGO DR #100-J1	Address 2:	
City:	LAS VEGAS	State:	NV
Zip Code:	89147	Country:	USA
Status:	Active	Email:	
Secretary - JAMES M MERRILL			
Address 1:	4705 S DURANGO DR #100-J1	Address 2:	
City:	LAS VEGAS	State:	NV
Zip Code:	89147	Country:	USA
Status:	Active	Email:	
Director - JAMES M MERRILL			
Address 1:	4705 S DURANGO DR #100-J1	Address 2:	
City:	LAS VEGAS	State:	NV
Zip Code:	89147	Country:	USA
Status:	Active	Email:	
Treasurer - CARLOS WANZELER			



Address 1:	4705 S DURANGO DR #100-J1	Address 2:	
City:	LAS VEGAS	State:	NV
Zip Code:	89147	Country:	USA
Status:	Active	Email:	
Director - CARLOS WANZELER			
Address 1:	4705 S DURANGO DR #100-J1	Address 2:	
City:	LAS VEGAS	State:	NV
Zip Code:	89147	Country:	USA
Status:	Active	Email:	
Actions/Amendments			
<a href="#">Click here to view 2 actions/amendments associated with this company {}</a>			

Disclaimer ()

---

# EXHIBIT 6

---

NANCY A. MITCHELL (*pro hac vice pending*)  
 MARIA J. DICONZA (*pro hac vice pending*)  
 GREENBERG TRAURIG, LLP  
 The MetLife Building  
 200 Park Avenue  
 New York, New York 10166  
 Telephone: 212-801-9200  
 Facsimile: 212-801-6400  
 Email: mitchelln@gtlaw.com  
 diconzam@gtlaw.com

GREGORY E. GARMAN, NV Bar # 6654  
 THOMAS H. FELL, NV Bar # 3717  
 TERESA M. PILATOWICZ, NV Bar # 9605  
 GORDON SILVER  
 3960 Howard Hughes Parkway, 9th flr.  
 Las Vegas, Nevada 89169  
 Telephone: 702-796-5555  
 Facsimile: 702-369-2666  
 Email: ggarman@gordonsilver.com  
 tfell@gordonsilver.com  
 tpilatowicz@gordonsilver.com

*Proposed Counsel for the Debtors  
 and Debtors in Possession*

**UNITED STATES BANKRUPTCY COURT  
 FOR THE DISTRICT OF NEVADA**

In re:

Case No.: BK-S-14-12524-abl  
 Chapter 11

TELEXFREE, LLC,

**[PROPOSED]**

**Jointly Administered with:**

☐ Affects this Debtor

☒ Affects all Debtors

14-12525-abl TelexFree, Inc.

14-12526-abl TelexFree Financial, Inc

☐ Affects TELEXFREE, INC.

☐ Affects TELEXFREE FINANCIAL, INC

Date: OST REQUESTED

Time: OST REQUESTED

**OMNIBUS DECLARATION OF WILLIAM H. RUNGE, IN IN SUPPORT OF THE  
 DEBTORS' CHAPTER 11 PETITIONS AND REQUESTS FOR FIRST DAY RELIEF**

**WILLIAM H. RUNGE, III**, hereby declares, under penalty of perjury, as follows:

1. I am the Chief Restructuring Advisor ("CRA") of TelexFree, LLC, a Nevada limited liability company ("TelexFree Nevada"), TelexFree, Inc., a Massachusetts corporation ("TelexFree Massachusetts") and TelexFree Financial, Inc., a Florida corporation ("TelexFree Florida" and together with TelexFree Massachusetts and TelexFree Nevada, "TelexFree," the "Debtors" or the "Company"). TelexFree Nevada was organized in August 2012. TelexFree Massachusetts was incorporated in 2002 as Common Cents Communications, Inc. TelexFree Florida was incorporated in 2013. Each of TelexFree Nevada and TelexFree Massachusetts are

1 owned by Carlos Wanzeler (50%) and James Merrill (50%). TelexFree Florida is a wholly-  
2 owned subsidiary of TelexFree Nevada.

3 2. I perform my duties out of the Debtors' headquarters in Marlborough,  
4 Massachusetts. I submit this declaration (the "**Declaration**") in support of the Debtors' chapter  
5 11 petitions and requests for relief contained in certain "first day" applications and motions filed  
6 on or shortly after the date hereof (the "**First Day Motions**").

7 3. I am a Managing Director with Alvarez & Marsal ("**A&M**"), a global leader in  
8 business restructuring and reorganization, and head of its North American restructuring practice  
9 for the Southern United States. I specialize in business diagnostics, business plan development  
10 and financial strategies for corporate turnarounds and restructuring. My primary areas of  
11 concentration are formulating and evaluating operational and organizational structures, and  
12 developing and implementing new strategies in the heavy manufacturing, distribution,  
13 telecommunications, and technology industries.

14 4. I have more than 35 years of experience working in industry, operations,  
15 financial and executive management, and turnaround consulting. I have worked primarily with  
16 companies challenged by transitions resulting from rapid growth, acquisitions, changes in  
17 financial structure and changes in market environments. In addition to holding positions as  
18 officers and directors at several companies, I have led numerous debtor and creditor advisory  
19 consulting engagements and have served as a federal receiver for the United States District Court  
20 for the Northern District of Georgia.

21 5. Recently I have served as the interim president of Clipper Windpower and the  
22 CFO of PG&E National Energy Group. I also have served as the operational/financial advisor to  
23 Flowers Foods, JGA Corp., Skinner Nurseries, Metromont Corp, Touch One Communications,  
24 Star Telecommunications, Wheland Foundry, Pharr Yarns, Inc., Russell Corporation, Qimonda  
25 Corp., Hayes Microcomputer, Inc., Sunshine-Jr. Stores and Laclede Steel Company, among  
26 others. Additionally, I was an advisor to the senior creditors of Bellisio Foods, Pilgrim's Pride  
27 Corporation, Allen's Family Foods, Cagle's Chicken, Dairy Production Systems LLC, Frozen  
28 Specialties, Inc., Horizon Lines Inc., iGPS Pallet Logistics, and WorldPoint Logistics.

1 6. I received a bachelor's degree, with honors, in physics and engineering from  
2 Washington and Lee University. I have a master's degree in business administration from  
3 Georgia State University.

4 7. As the Chief Restructuring Advisor of the Debtors, I am authorized to submit this  
5 Declaration on behalf of the Debtors. Except as indicated otherwise, all statements in this  
6 Declaration are based upon (a) my personal knowledge, (b) my review to date of the Debtors'  
7 books and records, or (c) other relevant documents and information prepared or collected by the  
8 Debtors' employees. If I were called to testify as a witness in this matter, I could and would  
9 competently testify to each of the facts set forth herein. In making the statements herein, I have  
10 relied in part upon others to accurately record, prepare and collect necessary documentation and  
11 information.

12 8. Part I of this Declaration provides a brief overview of the Debtors and a summary  
13 of these cases (the "Cases"). Part II of this Declaration describes in more detail the Debtors'  
14 business, the developments which led to the Debtors' chapter 11 filing and their goals in these  
15 Cases. Part III sets forth the relevant details of the various First Day Motions.

16 I.  
17 INTRODUCTION

18 9. The Company is a telecommunications business that uses multi-level marketing to  
19 assist in the distribution of voice over internet protocol ("VoIP") telephone services.  
20 TelexFree's retail VoIP product, 99TelexFree, allows for unlimited international calling to  
21 approximately seventy countries for a flat monthly rate of \$49.90. Customers of the Debtors'  
22 VoIP product ("Customers") used approximately 11 million minutes of the 99TelexFree VoIP  
23 service in February 2014. Since 99TelexFree was introduced in 2012, Customer usage increased  
24 on a monthly basis until March 2014.

25 10. In addition to the 99TelexFree VoIP service, TelexFree released a mobile phone  
26 "app" for I-Phones and Google phones in March 2014. A joint venture which is partially owned  
27 by the Company's equity owners is developing a mobile phone service called TelexMobile,  
28 which the Company expects will be released within the next several months.

1 11. TelexFree is operated as a multi-level marketing company, and currently has over  
2 700,000 associates or promoters (the "**Promoters**") worldwide. Prior to the filing of these  
3 Cases, TelexFree compensated Promoters for the sales of the VoIP product, the placing of  
4 advertisements and the recruitment of other Promoters down line. Because questions were raised  
5 about its compensation plan, the Company on March 9, 2014, discontinued its original  
6 compensation plan (the "**Original Comp Plan**") and replaced the Original Comp Plan with a  
7 revised compensation plan (the "**Revised Comp Plan**" and together with the Original Comp  
8 Plan, the "**Pre-Petition Comp Plans**"). At the time of the roll-out of the Revised Comp Plan,  
9 the Company decided to honor certain discretionary payments to Promoters under the Original  
10 Comp Plan. These discretionary payments quickly became a substantial drain on the Company's  
11 liquidity. The Company discontinued the Pre-Petition Comp Plans and ceased making  
12 discretionary payments under the Original Comp Plan prior to the date of the filing of these  
13 Cases (the "**Petition Date**").

14 12. The Company believes the sales of the 99TelexFree product, the TelexFree "app,"  
15 and other new products will ultimately prove successful and profitable. The Company is  
16 struggling, however, with several factors that required it to seek chapter 11 protection by filing  
17 these Cases. First, the Company experienced exponential growth in revenue between 2012 and  
18 2013 (from de minimus amounts to over \$1 billion), which put tremendous pressure on the  
19 Company's financial, operational and management systems. Second, although the Company  
20 revised its Original Comp Plan in order to address certain questions that were raised regarding  
21 such plan, the Company believes that the Pre-Petition Comp Plans need to be further revised.  
22 Finally, the trailing liabilities arising from the Original Comp Plan are difficult to quantify and  
23 have resulted in substantial asserted liabilities against the Company, a number of which may not  
24 be valid.

25 13. As a result, the Company filed these Cases to obtain the breathing room to  
26 address its operational and regulatory issues, revise the Pre-Petition Comp Plans, and quantify  
27 and address the claims against it. The Debtors believe that a restructuring of its debt, adoption of  
28 a post-petition revised compensation plan, unveiling of new products (including the TelexFree

1 app), and return to growing its Customer base will allow the Company to realize its full potential  
2 and generate significant value for its constituents.

3 14. To minimize the adverse effects of the commencement of the Cases on their  
4 business, the Debtors request various types of relief in the First Day Motions. The First Day  
5 Motions are described in greater detail in Part III below. Pursuant to the First Day Motions, the  
6 Debtors seek, among other things, to: (a) continue the Debtors' operations with as little  
7 disruption as possible; (b) maintain the confidence and loyalty of the Debtors' associates,  
8 Promoters, customers, and employees; (c) comply with applicable state telecommunications  
9 authorities and public utility commissions; and (d) retain appropriate professionals. Gaining and  
10 maintaining the support of the Debtors' key constituencies, as well as operating the Debtors'  
11 day-to-day business with minimal disruption and erosion, will be crucial to the success of the  
12 Debtors' efforts in these Cases to maximize the value of the Debtors' estates as they work  
13 through the Chapter 11 process.

14 15. On the Petition Date, the Debtors commenced the Cases by filing voluntary  
15 petitions for relief under title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the  
16 "Bankruptcy Code"), in the United States Bankruptcy Court for the District of Nevada (the  
17 "Bankruptcy Court").

## 18 II. 19 BACKGROUND

### 20 A. Corporate Structure of the Debtors.

21 16. The Company's operations are primarily booked through TelexFree Nevada,  
22 which according to the Company's pre-petition financial statements received approximately two-  
23 thirds of the approximately \$1 billion in revenues recorded in 2013. TelexFree Nevada is the  
24 contracting party to the terms and conditions contract with the Promoters (the "Promoter  
25 Contract"). TelexFree Florida is the owner of the Company's primary bank account.  
26 TelexFree Massachusetts was the original corporate entity but is being phased out.

27 ...

28 ...

1 **B. Development of the TelexFree Product and Multi-Level Marketing Structure.**

2 17. The Company's current business was started in 2012 by James Merrill and Carlos  
3 Wanzeler after both individuals worked for a long period within the telecommunications and  
4 multi-level marketing industries. After working together in an unrelated business owned by  
5 Merrill through most of the 1990's, Merrill and Wanzeler in or around 1997 became agents of a  
6 multi-level marketing company selling international phone service called World Exchange.  
7 Wanzeler, who was born in Brazil, knew from experience that international telephone calls to  
8 Brazil were exceedingly expensive. World Exchange sold international landline phone service at  
9 a significant discount to the major carriers, such as AT&T. Recognizing an opportunity to sell  
10 international phone services to immigrants in the United States at a discount, Wanzeler and  
11 Merrill became successful agents for World Exchange, with Wanzeler building a network of  
12 approximately 100,000 agents selling the World Exchange product. In 2002, Wanzeler and  
13 Merrill incorporated a company in Massachusetts called Common Cents Communications in  
14 connection with their distribution of the World Exchange product. In or around 2003, World  
15 Exchange was purchased by another company and discontinued the distribution and marketing of  
16 its product through multi-level marketing.

17 18. During roughly the same time period, Wanzeler and Merrill became aware of  
18 VoIP, which at the time was an emerging technology and represented an opportunity to offer  
19 international telephone service over the internet at prices even lower than those charged by  
20 World Exchange. After World Exchange discontinued its multi-level marketing program,  
21 Wanzeler and Merrill began to develop their own VoIP services. They contracted with LogiTel  
22 Corp. to assist in the development of the VoIP product and purchased the necessary servers and  
23 switches.

24 19. In or around 2003, Wanzeler and Merrill formed another company doing business  
25 as Disk A Vontade and began selling their VoIP product. Customers of Disk A Vontade purchase  
26 the VoIP product over the counter at various convenience stores in the United States. Wanzeler  
27 and Merrill marketed Disk A Vontade through television advertising at a significant cost. Disk  
28 A Vontade continues to exist and offer VoIP telephone services to thousands of customers.



20. In 2012, Wanzeler and Merrill decided to use multi-level marketing to distribute their VoIP product. With the assistance of a Brazilian associate named Carlos Costa, Wanzeler and Merrill began the current business of TelexFree in 2012. TelexFree's services initially became popular in Brazil, but its popularity has since grown worldwide.

**C. TelexFree's Multi-Level Marketing Compensation Plan Before March 9, 2014.**

21. Under the Original Comp Plan, new Promoters were required to pay a \$50 membership fee. This fee set up a Promoter's account, and provided a Promoter with access to their own unique TelexFree website and accounting page (called the "back office"), informational materials, approved ads for placement, and other services related to helping the Promoter sell 99TelexFree packages. A Promoter's contract lasted for one-year after the date of sign-up. After they paid their \$50 membership fee, Promoters had the option of purchasing two AdCentral packages:

- \$289 AdCentral Package: A Promoter purchased ten (10) 99TelexFree VoIP packages that they could re-sell for \$49.90 each, and earn monthly commissions after the first month.
- \$1,375 AdCentral Family Package: A Promoter purchased fifty (50) 99TelexFree VoIP packages that they could re-sell for \$49.90 each, and earn monthly commissions after the first month.

Each AdCentral package required the purchase of a Promoter membership. By contract, a Promoter had one year to sell VoIP packages from the date of purchase. Promoters could earn money through TelexFree's multi-level marketing program in several different ways, including commissions on sales, placement of internet advertisements for the TelexFree VoIP product, and the recruitment of new Promoters.

22. After a Promoter purchased either the AdCentral or the AdCentral Family package, they became eligible to post advertisements for one-free hour of the TelexFree VoIP service. The Company required a Promoter to place an ad on a free website recommended by TelexFree (such as Craigslist.org), or a website that they independently located. When a potential customer clicked on the ad, they were taken to the Promoter's unique website where they could try the VoIP service for one-hour free. If that potential customer chose to purchase

1 the 99TelexFree package, the Promoter that posted the ad received \$49.90 paid by the potential  
2 customer. The Promoter also received commissions if that potential customer chose to purchase  
3 monthly VoIP services.

4 23. For Promoters that purchased the \$289 AdCentral Package, each Promoter who  
5 posted one ad every day for one week received an additional 99TelexFree VoIP package at the  
6 end of that week for sale to retail customers. If a Promoter was unable to sell that package to a  
7 retail customer for \$49.90, the Company had the option to repurchase the package for \$20 if the  
8 Promoter chose to sell it back to the Company (the "Ad Buy Back").

9 24. For Promoters that purchased the \$1,375 AdCentral Family Package, Promoters  
10 who posted five ads each day for one week received five additional 99TelexFree VoIP packages  
11 at the end of that week for sale to retail customers. If a Promoter was unable to sell those  
12 packages to a retail customer for \$49.90 each, the Company had the option to repurchase the  
13 package for \$100 if the Promoter chose to sell it back to the Company under the Ad Buy Back.

14 25. TelexFree has spent hundreds of millions of dollars buying back VoIP packages  
15 through the discretionary Ad Buy Back.

16 26. It is the Company's understanding that at or about the same time that TelexFree  
17 commenced doing business, Carlos Costa set up a separate company in Brazil called Ympactus  
18 Ltda. ("Ympactus") to distribute the TelexFree product and create a multi-level marketing  
19 network in Brazil. In July 2013, Brazilian authorities shutdown Ympactus and froze its assets  
20 after accusing Ympactus of operating as a pyramid scheme. Investigations by state and federal  
21 authorities continue in Brazil, and numerous lawsuits against Ympactus by Brazilian promoters  
22 have been filed.

23 27. The Secretary of the Commonwealth of Massachusetts, Securities Division  
24 ("MSD") issued subpoenas for documents and information to TelexFree Massachusetts on  
25 January 22, 2014 and February 5, 2014. The Company timely responded to these subpoenas and  
26 provided the requested information.

27 ...

28 ...

1 **D. TelexFree Hires Several New Advisors And Develops A New Compensation Plan.**

2 28. As a result of the concerns raised by Brazilian authorities in the proceedings  
3 against Ympactus, TelexFree hired new multi-level marketing advisors in or around August 2013  
4 to develop a new compensation and network structure that went into effect March 10, 2014.  
5 Under the Revised Comp Plan, Promoters no longer had the option of purchasing AdCentral  
6 packages. Instead, all individuals enrolled in TelexFree as an "Associate" by paying an annual  
7 membership fee of \$149.95 and a monthly administrative fee of \$19.90, which includes a  
8 replicated website, back office, and a financial platform. Associates received commissions based  
9 upon their sales of 99Telexfree, as well as from the sales of associates they recruit.

10 29. In the Revised Comp Plan, Associates may become TelexFree Promoters when  
11 they enroll ten non-affiliate customers. Promoters earn money through the Revised Comp Plan  
12 in a variety of ways closely tied to the sales of 99Telexfree. Promoters earn direct and indirect  
13 99Telexfree sales commissions, bonuses for successful recruitment of new Promoters, and  
14 payments for ad placement. A Promoter who becomes "Ad Family" or "Ad Family Plus" may  
15 earn \$50 or \$100 per week, respectively, for ad placement.

16 30. The revenues generated from the Revised Comp Plan have been disappointing to  
17 the Company and do not allow the Company to meet its obligations.

18 **E. TelexFree Hires New Management.**

19 31. In December 2013, the Company hired Joseph Craft, CPA as acting Chief  
20 Financial Officer. Beginning in or around April 2012, Craft served as the Company's accountant  
21 and prepared its taxes and financial statements.

22 32. In February 2014, the Company hired Stuart MacMillan to act as its Interim Chief  
23 Executive Officer. MacMillan has over 25 years of management experience, the last 15 of which  
24 have been in direct selling and multi-level marketing companies. Among other management  
25 positions, MacMillan previously served as the first International President of Excel  
26 Communications, a multi-level marketing telecommunications company, and later as the  
27 President of Excel Communications in Canada. MacMillan also acted as the first Managing  
28 Director of Arbonne Canada.

1 33. Mr. Craft and Mr. MacMillan are currently acting as the Debtors' Interim CFO  
2 and CEO, respectively.

3 **F. Events Leading Up to the Chapter 11 Filings.**

4 34. The Company's growth in the period prior to the Petition Date had been  
5 staggering. Under the Original Comp Plan, the Company took in approximately \$3 million in  
6 revenue per day. The Company's revenue growth occurred quickly and the Company's systems  
7 were simply unable to handle the level of demand for its products and services.

8 35. The legal actions in Brazil against Ympactus also raised issues for the Company  
9 and caused the Company to determine that it needed to restructure its Original Comp Plan. The  
10 change from the Original Comp Plan to the Revised Comp Plan resulted in daily revenues  
11 dropping to between \$100,000 and \$300,000 per day. In addition, asserted claims by Promoters  
12 for weekly withdrawals increased dramatically. In the week following the introduction of the  
13 Revised Comp Plan, Promoters asserted claims for an aggregate of \$8 million from their back  
14 office accounts, then an aggregate of \$20 million the following week, then an aggregate of \$30  
15 million each of the following two weeks, and in excess of \$86 million in the aggregate the week  
16 preceding the filing of the Cases. The majority of these asserted claims were for amounts related  
17 to the discretionary Ad Buy Back.

18 36. The problems were exacerbated by the inability of the Company to quantify the  
19 actual claims under the Original Comp Plan. It appears that certain Promoters were abusing the  
20 Original Comp Plan by buying tens and even hundreds of AdCentral Packages for the purpose of  
21 earning funds through the discretionary Ad Buy Back, rather than selling VoIP packages as the  
22 Company intended. This practice is prohibited by the Promoter Contract. As a result, the  
23 Company could not quickly quantify the legitimate associate and Promoter compensation claims  
24 against the Company.

25 37. The Revised Comp Plan was better designed to require Promoters to sell the  
26 99TelexFree VoIP product and acquire Customers. However, it does not appear that the post-  
27 Revised Comp Plan will produce sufficient revenues to sustain the Company's  
28 telecommunications business.

1 **G. Efforts During the Chapter 11 Reorganization Period.**

2 38. The Company hired A&M as its CRA on April 10, 2014 to safeguard existing  
3 cash, guide the Debtors through a Chapter 11 reorganization, and develop a profitable business  
4 plan based on a revised compensation arrangement.

5 39. Early in the Cases, the Debtors (working with A&M and certain outside  
6 consultants) intend to quickly develop a new compensation plan that will replace the Pre-Petition  
7 Comp Plans. The Company also intends to discontinue and reject the Pre-Petition Comp Plans  
8 and quantify the legitimate claims under those Plans. Once the legitimate claims have been  
9 quantified and the Company has developed a new compensation program, the Debtors hope to  
10 reorganize and satisfy the claims against them. The Company will continue to provide  
11 telecommunications services to new and existing customers during the pendency of these Cases.

12 40. The Debtors further are implementing a new cash management system to  
13 safeguard funds for the benefit of all constituents. After the Ympactus investigation, the  
14 Company had difficulty maintaining depository relationships with federally regulated banking  
15 institutions. To address this issue and to provide assurances to creditors, regulators and the  
16 Court that the Debtors' funds have been protected, the Debtors have adopted board resolutions  
17 that have transferred exclusive signing authority for all banking accounts to the Interim CFO and  
18 CEO. In addition, the Debtors, led by the CRA, are negotiating to have the Debtors' funds  
19 deposited in an escrow account with a regulated financial institution. While the Debtors will  
20 need access to escrowed funds to operate, any withdrawal from such account would require  
21 Bankruptcy Court authority.

22 41. The Debtors also anticipate that they will continue to cooperate with MSD in its  
23 investigation. MSD issued an additional subpoena on April 2, 2014, and the Company is  
24 presently preparing its response.

25 **III.**  
26 **FIRST DAY MOTIONS**

27 42. Concurrent with the filing of the voluntary petitions to commence these Cases, the  
28 Debtors will be filing several First Day Motions. The Debtors anticipate that the Bankruptcy

1 Court will conduct a hearing within a business day or two after the commencement of the Cases  
2 (the "**First Day Hearing**"), during which the Bankruptcy Court will entertain the arguments of  
3 counsel with respect to the relief sought in each of the First Day Motions.

4 43. Generally, the First Day Motions have been designed to meet the immediate goals  
5 of: (a) establishing procedures for the efficient administration of the Cases; (b) continuing the  
6 Debtors' operations during these Cases with as little disruption and loss of productivity as  
7 possible; and (c) maintaining the confidence and support of the Debtors' other key  
8 constituencies. I have reviewed each of the First Day Motions, including the exhibits attached  
9 thereto, and believe that the relief sought in each of the First Day Motions is narrowly tailored to  
10 meet the goals described above and, ultimately, will be critical to the Debtors' ability to achieve  
11 success in these Cases.

12 44. The First Day Motions are summarized below.

13 A. **Emergency Motion of the Debtors for Entry of an Order Directing Joint**  
14 **Administration of Chapter 11 Cases.**

15 45. By this motion, the Debtors request the joint administration of the Debtors'  
16 related chapter 11 cases for procedural purposes only. Specifically, the Debtors request that the  
17 Court maintain one file and one docket for the Debtors' cases under the TelexFree Nevada case  
18 and also request that the caption of their cases be modified to reflect the joint administration of  
19 the cases.

20 46. Joint administration of these cases (a) is warranted because the Debtors' financial  
21 affairs and business operations are closely related, and (b) will ease the administrative burden on  
22 the Court and parties-in-interest in these cases. The Debtors anticipate that numerous notices,  
23 applications, motions, pleadings, hearings, orders, and other documents in these cases will affect  
24 all of the Debtors. With three (3) affiliated Debtors, each with its own case docket, the failure to  
25 administer these cases jointly would result in numerous duplicative pleadings being filed and  
26 served upon parties identified in separate service lists. Such duplication of substantially identical  
27 documents would be extremely wasteful and would unnecessarily overburden the Debtors, the  
28 Clerk of the Court (the "**Clerk**"), creditors, and other parties-in-interest in these Cases.

1 47. I understand that if the Court approves joint administration of the Debtors' cases,  
2 the Debtors will be able to reduce fees and costs resulting from the administration of these  
3 Chapter 11 Cases and ease the onerous administrative burden of having to file multiple  
4 documents. I have also been advised that joint administration will ease the administrative burden  
5 for the Court and all parties to these cases and obviate the need for duplicative notices, motions,  
6 applications and orders, and thereby save time and expense for the Debtors and their estates.

7 48. Based on the foregoing, the Debtors believe that joint administration of the cases  
8 is in the best interests of the Debtors, their estates and all parties in interest, and should be  
9 granted in all respects.

10 **B. Emergency Motion of the Debtors Pursuant to Sections 105(a), 363, 364, 503,**  
11 **507(a)(4), 507(a)(5), 541, 1107 and 1108 of the Bankruptcy Code and Bankruptcy**  
12 **Rules 6003 and 6004(h) for Entry of an Order (a) Authorizing Debtors to Pay (I) All**  
13 **Prepetition Employee Obligations, (II) the Independent Contractors' Fees and (III)**  
14 **the Contracting Agencies' Fees and (b) Directing the Disbursing Bank to Honor**  
15 **Related Transfers.**

16 49. The Debtors' employees (the "**Employees**") are essential to the continued  
17 operation of the Debtors' business, and the Employees' morale directly affects their effectiveness  
18 and productivity. Consequently, it is critical that the Debtors continue, in the ordinary course,  
19 any personnel policies, programs, and procedures that were in effect prior to the Petition Date.  
20 Accordingly, by this motion (the "**Employee Wage Motion**"), the Debtors seek entry of an order  
21 (a) authorizing, but not directing, the Debtors to pay (i) certain prepetition employee obligations  
22 described herein (collectively the "**Employee Obligations**"), (ii) the Independent Contractors'  
23 Fees (as defined below) and (iii) the Contracting Agencies' Fees (as defined below) and (b)  
24 directing PNC Bank, N.A. (the "**Disbursing Bank**") to honor the Debtors' prepetition checks or  
25 electronic transfers for payment of any of the foregoing, and prohibiting the Disbursing Bank  
26 from placing holds on, or attempting to reverse, any automatic transfers on account of the  
27 foregoing.

28 **1. The Employees.**

50. TelexFree Massachusetts operates primarily out of its headquarters in  
Marlborough, Massachusetts, and employs fourteen (14) employees (the "**Employees**"), which

1 are paid by TelexFree Florida. TelexFree Massachusetts is the only Debtor that hires employees.

2 51. Two (2) of the Employees are salaried and twelve (12) work on an hourly basis.  
3 The Employees provide customer service support for the Debtors' independent representatives  
4 and customers, as well as financial and marketing services for the Debtors. None of the Debtors'  
5 insiders are employees of the Debtors.

6 **2. The Employee Obligations.**

7 52. To retain its Employees, TelexFree Massachusetts incurs certain obligations  
8 discussed below in the ordinary course of business, which obligations are consistent with  
9 similarly situated companies. The Employee Obligations are not owed to any of the Debtors'  
10 insiders.

11 a. Wages, Salaries and Payroll Obligations.

12 53. All Employees are paid wages and salary (collectively, the "**Wages and**  
13 **Salaries**") on a weekly basis, on every Friday, for the work period ending the previous Friday.  
14 Payroll averages approximately \$9,878.00 per pay period in the aggregate, including the  
15 Employee Taxes (as defined below). Eleven (11) of the Employees are paid through electronic  
16 fund transfers, i.e. direct deposit, while the remaining Employees are paid by paper checks.

17 54. The Debtors' last regular payroll date was April 11, 2014, and the next payroll  
18 date is scheduled for April 18, 2014. The Debtors estimate that, as of the Petition Date,  
19 approximately \$12,000.00<sup>1</sup> in Wages and Salaries, commissions and payroll obligation have  
20 accrued, and are owed to their Employees, with no employees owed in excess of \$12,425.00. By  
21 this Employee Wage Motion, the Debtors request the authority to pay all unpaid Wages and  
22 Salaries to their Employees in the ordinary course of business.

23 55. Harpers Payroll Services, Inc. ("**Harpers**") processes payroll for TelexFree  
24 Massachusetts. On average, Harpers is owed a total of approximately \$160.00 per month on  
25 account of payroll administration and certain other payroll related services. Harpers invoices  
26 TelexFree Massachusetts on a weekly basis for services provided and obtains payment by

27 <sup>1</sup> This figure includes the amount of Wages and Salaries owed for the week ending April 11, 2014 as well  
28 as amounts that have been paid to Employees by checks that have not yet been cashed.



1 accessing the primary account at the Disbursing Bank. The Debtors estimate that there are  
2 \$40.00 accrued and unpaid costs in connection with payroll processing services. By this Motion,  
3 the Debtors request the authority to continue to pay Harpers the weekly fee in the ordinary  
4 course of business.

5 56. TelexFree Massachusetts, as employer, is required by law to withhold federal and  
6 state taxes from Wages and Salaries for remittance to appropriate tax authorities (the "**Employee**  
7 **Taxes**"). The Employee Taxes total approximately \$2,300.00 per pay period. In addition,  
8 TelexFree Massachusetts is required to pay, from their own funds, the social security and  
9 Medicare taxes and pay, based on a percentage of gross payroll and subject to state-imposed  
10 limits, additional amounts for state and federal unemployment insurance (the "**Employer**  
11 **Taxes**," and together with the Employee Taxes, the "**Payroll Taxes**") and remit the same to the  
12 appropriate authorities (collectively, the "**Taxing Authorities**"). Social Security and Medicare  
13 taxes are collected under the Federal Insurance Contribution Act's authority (FICA). Employer  
14 Taxes total approximately \$1,600.00 per pay period. For permanent Employees, the Payroll  
15 Taxes are paid to various Taxing Authorities in accordance with the Internal Revenue Code and  
16 applicable state law. TelexFree Massachusetts's average weekly total obligation for Payroll  
17 Taxes is approximately \$3,900.00. The Debtors seek authority to honor, process and pay the  
18 prepetition obligations with respect to the Payroll Taxes.

19 b. Vacation Time.

20 57. Full-time employees that have worked for the Debtors at least one year may  
21 receive five (5) paid personal time off days to be used for vacation ("**PTO Days**"). Upon  
22 termination from TelexFree Massachusetts, employees forfeit all unused PTO Days. As of the  
23 Petition Date, the Debtors estimate that they owe approximately \$8,450.00 for accrued and  
24 unused PTO Days. By this Motion, the Debtors request authority to continue to pay the PTO  
25 Days and any other paid-time off obligations, to the extent required by law, and to honor all  
26 prepetition obligations related thereto.

27 c. The Independent Contractors.

28 58. In addition, TelexFree Massachusetts engages four (4) independent contractors

(the “**Independent Contractors**”). One (1) of the Independent Contractors provides product development services and three (3) provide customer service support to TelexFree Massachusetts’s independent representatives and customers. The Independent Contractors are engaged on an hourly or salary basis. The Independent Contractors are paid on a weekly basis in the aggregate amount of approximately \$3,054.73. As of the Petition Date, the aggregate amount outstanding to the Independent Contractors totals approximately \$7,500.00<sup>2</sup> (the “**Independent Contractor Fees**”).

d. The Contracting Agencies.

59. TelexFree Massachusetts also engages contracting agencies that engage other independent contractors to provide IT and customer service support to TelexFree Massachusetts’s independent representatives and customers. A list of the contracting agencies (the “**Contracting Agencies**”), the labor provided, and the estimated monthly cost, is attached the Employee Wage Motion as Exhibit A. The Contracting Agencies are paid on a monthly basis. As of the Petition Date, the aggregate amount outstanding to the Contracting Agencies totals approximately \$111,500.00 (the “**Contracting Agencies’ Fees**”).

C. Emergency Motion of the Debtors for Entry of an Order Authorizing the Debtors to Honor Credit Card Transactions, Chargebacks, Discounts and Commissions in the Ordinary Course of Business.

60. In the normal course of business, approximately twenty-five percent (25%) of the Debtors’ total sales are settled through credit card transactions. During the post-petition period, the Debtors expect to continue accepting credit cards as a source of payments for purchases in the normal course of their day-to-day operations. By this motion (the “**Credit Card Motion**”), the Debtors seek entry of an order pursuant to sections 105(a), 363 and 553 of the Bankruptcy Code authorizing the Debtors to continue to honor certain credit card transactions, chargebacks, discounts and related expenses.

1. Debtors’ Credit Card Processors.

61. The Debtors have approximately four (4) separate agreements with a number of

<sup>2</sup> This figure includes amounts owed for services performed during the week ending April 11, 2014, as well as checks that have not yet been cashed.

1 credit card processors, including, but not limited to, Propay Inc., Phoenix Payments LLC, Allied  
2 Wallet and Vantage Payments (collectively, the “**Debtor Credit Card Processors**”), governing  
3 the terms and conditions of credit card payments, discounts, and commissions, all as more  
4 specifically described herein (collectively, the “**Debtor Agreements**”).

5 62. The Debtor Credit Card Processors provide the Debtors with credit card  
6 transaction processing services for all credit cards accepted by the Debtors, including Visa,  
7 Mastercard and American Express. Pursuant to the Debtor Agreements, subject to certain fees,  
8 commissions, and other costs of administration in processing credit card transactions, the  
9 Debtors are permitted to accept the credit cards for purchases in connection with the Debtors’  
10 businesses, including access to the Debtors’ websites.

11 63. Honoring the credit card charges and the commensurate expenses incurred  
12 pursuant to the Debtor Agreements in the ordinary course of the Debtors’ business operations is  
13 absolutely necessary in the website-based business context. Without the ability to assure the  
14 Debtor Credit Card Processors that transactions will continue to occur in the ordinary course  
15 after the Petition Date, the Debtor Credit Card Processors may attempt to adjust the reserve  
16 amounts and the timing of payments to the Debtors. Furthermore, under sections 363 and 553 of  
17 the Bankruptcy Code, the Debtor Credit Card Processors are likely to seek a setoff of all such  
18 charges against funds currently in their possession that they would otherwise remit timely to the  
19 Debtors, rather than maintain the *status quo* and continue normal operations during these  
20 Chapter 11 Cases.

21 64. As a majority of the Debtors’ revenues are generated from website-based  
22 purchases, the use of credit cards is inextricably linked to the Debtors’ ability to continue normal  
23 postpetition operations. Even a slight delay in implementing the relief requested herein could  
24 cause the Debtor Credit Card Processors to refuse to do business with the Debtors on the terms  
25 and basis of their ordinary course relationships, which could have a significant and material  
26 adverse affect on the Debtors’ business as the Debtors would be forced to identify and obtain  
27 new credit card processors.

28 65. The relief requested in the Credit Card Motion with respect to authorizing the

1 Debtors to honor credit card charge backs, commissions and discounts in the ordinary course of  
2 business, including any pre-petition amounts that may currently be outstanding, is necessary to  
3 ensure and maintain credit card processing and the uninterrupted flow of revenue.

4 **2. Non-Debtor Credit Card Processors.**

5 66. In addition to the Debtors' Agreements, certain of the Debtors' non-debtor  
6 affiliates (the "**Non-Debtor Affiliates**") have agreements with Argus Payments, a credit card  
7 processor (the "**Non-Debtor Credit Card Processors**", and together with the Debtor Credit  
8 Card Processors, the "**Credit Card Processors**"), governing the terms and conditions of credit  
9 card payments, discounts, and commissions, as more specifically described herein (the "**Non-**  
10 **Debtor Agreements**"). Like the Debtor Credit Card Processors, pursuant to the Non-Debtor  
11 Agreements, subject to certain fees, commissions, and other costs of administration in processing  
12 credit card transactions, the Debtors are permitted to accept the credit cards for purchases in  
13 connection with the Debtors' businesses, including the Debtors' websites.

14 67. The Non-Debtor Credit Card Processors process credit card transactions,  
15 chargebacks, discounts, and commissions resulting from purchases made from the Debtors'  
16 websites and other businesses. The resulting funds are then reconciled by the Non-Debtor  
17 Affiliates, which are then immediately transferred to the Debtors. Accordingly, as credit card  
18 transactions, chargebacks, discounts, and commissions are processed by the Non-Debtor Credit  
19 Card Processors, it is absolutely necessary to the Debtors' ongoing business operations that the  
20 Non-Debtor Affiliates and the Non-Debtor Credit Card Processors be permitted to continue to  
21 operate pursuant to the Non-Debtor Agreements in the ordinary course of business.

22 68. Non-Debtor Credit Card Processors may ultimately continue to operate in the  
23 ordinary course, as they are unaffected by these Chapter 11 Cases and, thus, do not require any  
24 additional approval to conduct business as normal or require additional reserves. However, out  
25 of an abundance of caution, the Debtors seek entry of an order authorizing the Debtors, in their  
26 sole discretion, to continue honoring, in the ordinary course, any terms relating to the Non-  
27 Debtor Credit Card Agreements and any credit card transactions, chargebacks, discounts,  
28

1 commissions and related expenses resulting from the Non-Debtor Agreements with the Non-  
2 Debtor Credit Card Processors.

3 **D. Emergency Motion of the Debtors Pursuant to Section 105(a) of the Bankruptcy**  
4 **Code, Bankruptcy Rules 1007, 2002(l), 2002(m) and 9007, Local Rule 2002 for Entry**  
5 **of an Order Approving Notice Procedures.**

6 69. By this motion (the "Notice Motion"), the Debtors seek entry of an order  
7 establishing notice procedures and establishing a master service list (the "Master Service List").

8 70. TelexFree Nevada entered into various enrollment agreements (the "Contracts")  
9 with over 700,000 parties allowing these parties to utilize and/or promote the Company's  
10 services. The Company can initiate communication with the counterparties to Contracts (the  
11 "Counterparties") in two ways. First, the Company can email the Counterparties directly to the  
12 email addresses provided by the Counterparties. Pursuant to the Contracts, each Counterparty  
13 agrees that the Company can contact the Counterparties via email and that such email address is  
14 "valid for legal purposes." Second, the Company provides a virtual environment (the "Back  
15 Office") which Counterparties use to access certain of the Company's services and obtain  
16 information with respect to the counterparty's individual account. Each Counterparty has a  
17 unique user name and password to access the Back Office and in the ordinary course of business  
18 the Company regularly posts messages to the Back Office.

19 71. With such a large number of Counterparties, the service of pleadings on them via  
20 traditional means would prove expensive, inefficient, and unduly burdensome. The Debtors  
21 therefore propose that, when the Debtors are obligated to notice the Counterparties, the Debtors  
22 shall be authorized to serve the Counterparties via (a) electronic mail at the email address  
23 provided to the Company and/or (b) utilizing the messaging services provided by the Back  
24 Office, as described herein.

25 72. The Debtors believe that the notice procedures set forth in the Notice Motion are  
26 reasonably calculated to ensure that parties in interest receive notice of pleadings and are  
27 appropriate in the circumstances of these Chapter 11 Cases.

28 ...

...

**E. Emergency Motion of the Debtors For Entry of Interim and Final Orders Pursuant to Section 105(a) and 366 of the Bankruptcy Code (I) Prohibiting Utilities from Altering, Refusing, or Discontinuing Service, (II) Deeming Utilities Adequately Assured of Future Performance, and (III) Establishing Procedures for Determining Adequate Assurance of Payment.**

73. In connection with the operation of their businesses and management of their properties, the Debtors obtain telephone services and internet provider services (collectively, the "Utility Services") from certain utility companies (collectively, the "Utility Providers").

74. In the ordinary course of business, the Debtors regularly incur utility expenses for Utility Services provided by the Utility Providers. The Debtors have a long and established payment history with the Utility Providers. The Debtors' aggregate average monthly cost for utility services is approximately \$18,500.

75. Uninterrupted utility services are essential to the preservation of the Debtors' estates and assets, and therefore, to the success of these Chapter 11 Cases. Should a Utility Provider refuse or discontinue service, even for a brief period, the Debtors' ability to preserve and maximize the value of their estates could be severely and irreparably harmed. For example, a lack of telephonic or internet services would render the Debtors' services inoperable, effectively corrupting the good-will of the Debtors' businesses with end users of the Debtors' products. Such a result could jeopardize the Debtors' reorganization efforts and ultimately, value and creditor recoveries. It is therefore critical that utility services continue uninterrupted.

**F. Emergency Motion of the Debtors For Entry an Order (I) Authorizing the Debtors to Pay Prepetition Income, Franchise and Similar Taxes and Regulatory Fees in the Ordinary Course of Business, and (II) Authorizing Banks and Financial Institutions to Honor and Process Checks and Transfers Related Thereto.**

76. In connection with the normal operation of their business, the Debtors pay certain income, franchise and similar taxes (collectively, the "Taxes") to federal and state taxing authorities (collectively, the "Taxing Authorities") and pay various regulatory fees (the "Regulatory Fees," and together with Taxes, the "Taxes and Fees") to certain governmental agencies and authorities (together with the Taxing Authorities, the "Taxing and Regulatory Authorities"). These Taxes and Fees include, without limitation, the following:

...

1           **1. Universal Service Administration Company Support Mechanism Charges.**

2           77. The Debtors pay monthly contributions to the Universal Service Administration  
3 Company (the "USAC") which is a non-for-profit corporation designated by the Federal  
4 Communications Commission (the "FCC") as the administrator of the "Universal Service Fund,"  
5 created by the FCC to accomplish the goals mandated by the Telecommunications Act of 1996,  
6 Pub. L. No. 104-104, 110 Stat. 56 (Feb. 8, 1996). The USAC receives contributions from all  
7 companies providing Voice over Internet Protocol services. The monthly contributions are based  
8 on projected quarterly earnings. The Debtors estimate that the contribution due for the period  
9 ending on April 14, 2014 will be approximately \$23,404.

10           **2. Income/Franchise Taxes.**

11           78. The Debtors pay income/franchise taxes (the "Income/Franchise Taxes") to  
12 applicable Taxing Authorities in many U.S. jurisdictions. The Income/Franchise Taxes are  
13 established by the Debtors' income tax base, the capital employed by the Debtors' operations  
14 and/or a variety of other factors. Timely payment of the Income/Franchise Taxes allows the  
15 Debtors to continue operating their business in such jurisdictions. The Debtors typically pay the  
16 Income/Franchise Taxes on a quarterly or annual basis, and are currently obligated to pay certain  
17 Income/Franchise Taxes post-petition based upon amounts that accrued prepetition. The Debtors  
18 estimate that the aggregate approximate amount of \$97,306 was accrued in respect of  
19 Income/Franchise Taxes as of the Petition Date.

20           79. The Debtors seek authority to pay prepetition Taxes and Fees accrued for the  
21 benefit of the Taxing and Regulatory Authorities in an aggregate amount not to exceed \$200,000.

22           **G. Emergency Motion of the Debtors For Entry an Order Authorizing the Debtors to**  
23           **Honor Prepetition Prepaid Voice Over Internet Protocol Telephone Minutes.**

24           80. As described above, the Debtors distribute a VoIP product, 99TelexFree, which  
25 allows a subscriber to make unlimited international calls to over forty countries. A subscriber  
26 pays a monthly fee in order to obtain a month of service from the Debtors. Prior to the Petition  
27 Date the Debtors sold their VoIP services to a number of customers who anticipated utilizing the  
28 Debtors' services for the month following their purchase (the "Prepaid VoIP Minutes"). The

1 Debtors failure to honor the Prepaid VoIP Minutes would severely and irreparably harm the  
2 Debtors' customer relations, as many of the Debtors' customers would be deprived of the  
3 services they purchased.

4 81. The success and viability of the Debtors' business and the Debtors' ability to  
5 successfully maximize value for the stakeholders in these cases are dependent primarily upon the  
6 patronage and loyalty of the customers who purchase the VoIP product. The ability to honor the  
7 Prepaid VoIP Minutes is fundamental to the continued success of the Debtors' business; without  
8 the ability to honor the Prepaid VoIP Minutes the Debtors business will be irreparably harmed.  
9 Moreover, honoring the Prepaid VoIP Minutes will preserve customer satisfaction; this will  
10 assist the Debtors in retaining current customers and assist the Debtors in their reorganizational  
11 efforts. Honoring the Prepaid VoIP Minutes is critical to the continuation of customer loyalty  
12 and satisfaction, whereas failure to honor the Prepaid VoIP Minutes would severely and  
13 irreparably impair the Debtors' customer relations and cause a severe loss in customer  
14 confidence. Accordingly, the Debtors submit that they should be authorized to honor the Prepaid  
15 VoIP Minutes.

16 82. The Debtors seek entry of an order authorizing the Debtors to honor the Prepaid  
17 VoIP Minutes purchased by the Debtors' customers prepetition.

18 **H. Emergency Motion of the Debtors For Entry an Order Authorizing the Debtors to**  
19 **Reject Certain Executory Contracts *Nunc Pro Tunc* as of the Petition Date.**

20 83. By this motion (the "**Rejection Motion**"), the Debtors request entry of an order,  
21 authorizing and approving the Debtors' rejection of all of agreements between the Debtors and  
22 the Promoters under both the Original Comp Plan and the Revised Comp Plan (collectively, the  
23 "**Rejected Contracts**").

24 84. As of the Petition Date, the Debtors and the Promoters each had material  
25 unperformed obligations pursuant to the Rejected Contracts. The Rejected Contracts require the  
26 Promoters to comply with certain provisions to act in accordance with the agreement including,  
27 among other things: (i) strictly adhering to the rules and schedules established by the Debtors'  
28 system, (ii) indemnifying the Company for actions arising from the Promoters use of the



Debtors' systems, (iii) agreeing to receive messages in their inbox maintained on the Debtors' electronic messaging systems, (iv) respecting and complying with all local, municipal, state, federal, and international laws and regulations, (v) refraining from soliciting other Promoters to participate in other multilevel marketing businesses, (vi) providing true, accurate and complete information and ensuring that information is current and accurate, (vii) refraining from engaging in other multilevel marketing activities similar to the services provided by the Debtors, and (viii) protecting the intellectual property of the Debtors. In addition, the Debtors have material ongoing obligations pursuant to the Rejected Contracts, including, among other things, (i) maintaining the virtual environment utilized by the Promoters and (ii) paying certain compensation, bonuses and incentives to the Promoters for certain actions taken by the Promoters which are authorized by the Agreements.

85. Because neither of the Pre-Petition Comp Plans meets the needs of the Debtors businesses. The Debtors intend to discontinue and reject the Pre-Petition Comp Plans and quantify the legitimate claims under those Plans. Once the legitimate claims have been quantified and the Company has developed a new compensation program, the Debtors hope to reorganize and satisfy the claims against them.

86. As a result of the circumstances that led to the filing of these Chapter 11 Cases, as set forth herein, the Debtors have determined that it is imperative that they reject the Rejected Contracts as of the Petition Date so as to quantify claims thereunder and work on putting a new program in place. The Debtors believe that continuing to accrue claims under the Rejected Contracts will not offer additional value to their estates but would instead result in the further degradation of the Debtors' cash reserves. Therefore, in the exercise of their business judgment, the Debtors have determined that the Rejected Contracts are appropriate for immediate rejection..

**I. Emergency Motion of the Debtors For Entry an Order Designating and Approving the Form and Manner of Notice of the Motion of the Debtors for Entry of an Order Authorizing the Debtors to Reject Certain Executory Contracts *Nunc Pro Tunc* as of the Petition Date.**

87. By this motion (the "Rejection Notice Motion"), the Debtors seek approval of procedures to provide notice to the Promoters of the hearing on, and objection deadline for, the

1 Rejection Motion.

2 88. The Debtors believe that providing notice as set forth in the Rejection Notice  
3 Motion is proper and sufficient under the existing circumstances.

4 89. For the reasons described herein and in the First Day Motions, I believe that the  
5 prospect for achieving these objectives for the benefit of creditors and other stakeholders will be  
6 substantially enhanced if this Bankruptcy Court grants the relief requested in each of the First  
7 Day Motions and respectfully request the Bankruptcy Court to do so.

8 I declare, pursuant to 26 U.S.C. § 1746, under penalty of perjury, that the foregoing is  
9 true and correct to the best of my information, knowledge and belief.

10 Dated: April 14, 2014

11 /s/ William H. Runge, III

12 William H. Runge III

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

---

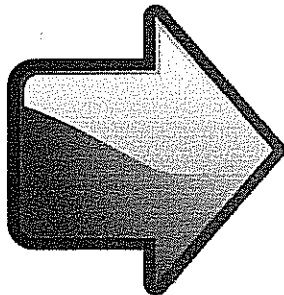
# EXHIBIT 7

---

## TelexFree

HOME HOW TO SIGNUP

### Place 5ads/day & Earn \$100/week (No Condition Behind)



HOW MANY of you would like to **earn a passive income (\$20 or \$100 a week for 52 weeks )** just for **placing 1 Telexfree Ad per day** promoting the company's product ?

You just place your Ad and **get paid weekly regardless of if anyone buys what you are selling or regardless of if you ever recruit a single person into this opportunity or not.....**Sounds good doesn't it?

**YES**

TelexFree looking for promoter who would publish 5ads/day, takes just 3 minute with our system and will earn \$100/week.**You just place your Ad and get paid weekly regardless of if anyone buys what you are selling or regardless of if you ever recruit a single person into this opportunity or not**

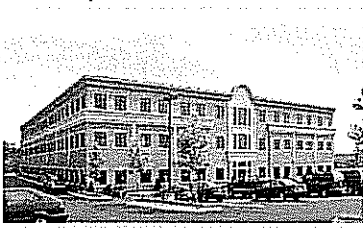
## Who Is TelexFREE



*Telexfree* is an Advertising company that uses interactive technologies to create sustainable wealth through advertising Software and VOIP Phone Service. This is generally done through advertising on free classified websites, text link exchanges safe lists and other online and offline properties.

***TelexFree* created 23 millionaires in less than 2 years  
Because EVERYONE GETS PAID Here**

## TelexFREE Popularity



### Telexfree Ranks among Top 100 most visited site in Alexa

Check it out [Here](#)

## How You Go

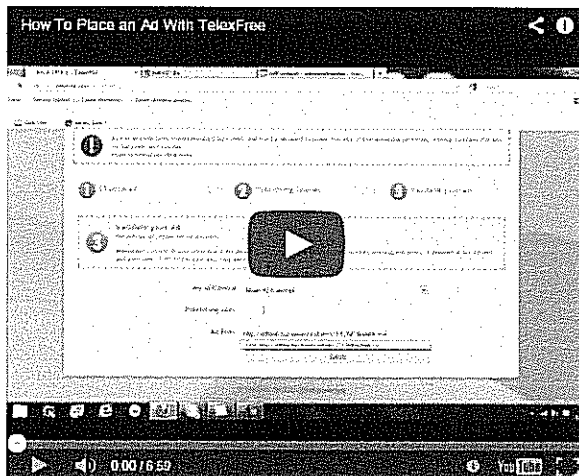
1. Chose Your Package
2. You join as promoter
3. Post 1-5ads/day.....& you are done

You join as promoter paying \$50 + \$289(1 adCentral) = \$339 -> You place 1 ad/day -> You earn \$20/week(guaranteed) for 52 weeks -> You get your investment back in 16 weeks

You join as promoter paying \$50 + \$1375(5 adCentral AD Central Family) = \$1425 -> You place 5 ads/day -> You earn \$100/week (guaranteed) for 52 weeks -> You get your investment back in 14.25 weeks

*So, remaining 38 weeks earning goes into your pocket as profit. You can reinvest it to buy more AD Central step by step and earn at least \$1000-\$3000/week. Without any sale and sponsoring people.*

## Your DAILYWork At TelexFREE



*Watch to know what exactly you need to do everyday to earn \$100/week*

## \$1000/week Plan with TelexFree

*Watch to know how realistic way you can earn \$1000/week without sponsoring or a single sale*



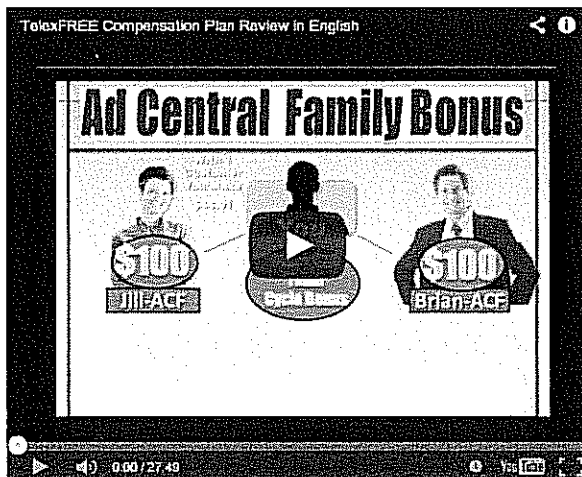
### Powerful *Passive Income*



*Telex Passive Income Calculator Explained*

*Watch to know the power of passive income.  
So easy and guaranteed*

### Amazing Compensation Plan



### Key points

- Extremely stable business model
- **Clean & scam free business.** Check scam report here
- A real company with real offices
- Post ads each day for Telex and get paid
- 23 millionaires created in just 12 months
- Payments made weekly
- Earn 52 weekly payments per contract
- Fund directly by credit card
- Withdraw directly to your bank account
- Team building bonuses
- Excellent **team training** and Skype group



#### Benefit Joining Our Team

*-If you are interested in joining TelexFREE as a promoter and earning from selling their service and building your own team, then I am part of one of the biggest in TelexFREE.*

*-We provide full support and training and are there to help whenever it is needed. You also have access to resources to help you build your own team including sales funnel videos along with a 24/7 Skype room.*

*- We will take care of your ad posting and teach you the trick to submit your five ad in one click*

*-We will create your webpage to promote TelexFREE*

**TAKE ACTION &  
JOIN the Team Today!**

**GET STARTED HERE!**



Contact Us

Web Hosting by Hostgator

---

# EXHIBIT 8

---



- [Home](#)
- [About](#)
- [Contact](#)
- [RSS](#)
- [Email RSS](#)



## TelexFree under criminal investigation in Brazil

Feb.15, 2013 in [companies](#), [TelexFree](#)



Using the old “invest with us, do pointless tasks for us and we’ll pay you a ROI with new investor money each week” business model, it comes as no surprise that authorities in Brazil have launched an investigation into [TelexFree](#).

On the 11th of January the Brazilian Bureau of Consumer Protection (known as Procon), after receiving numerous enquiries about the business and having launched their own investigation, put out a [press release](#) (in Portuguese) advising it had ‘*detected evidence of crimes*’.

The investigation initiated by civil prosecution of Consumer Protection (no. 01/2013) shows several controversial issues and possible crimes that put consumers at risk in time to accept that kind of deal.

Among the possibilities, there is a breach in the Federal Law No. 1.521/51, art. 2, according to which it is a crime:

“Obtaining or attempting to obtain illicit gains at the expense of the people or of undetermined number of people through speculation or processes fraudulent (‘snowball’, ‘chains’, ‘pichardismo’ and any other equivalent)” including Ponzi pyramid”.

There is also the possible violation of the Code of Consumer Protection (CDC), with false advertising, failure of product information and company, abuse of weakness or ignorance of consumers and conditions unreasonable disadvantage, among others.

In light of this discovery, the agency lodged a complaint against Telexfree and forwarded it to the State Prosecutors Office, the Minister of Finance and the Federal Police.

None of which have thus far publicly commented but have no doubt since launched their own investigations into the company.

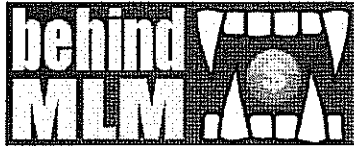
Not only do TelexFree utilise a Ponzi scheme business model for their “AdCentral” commissions, but they also utilise a pyramid scheme structure offering straight recruitment commissions and binary recruitment commissions. These commissions directly compensate existing affiliates upon the recruitment of new affiliates into the scheme.

Last I heard, having most likely exhausted the local Brazilian market TelexFree were now trying to make inroads into the US. At the time of publication, Telexfree is traffic ranked by Alexa as 57th in Brazil, 462nd in Portugal and 11,263rd in the US.

---

# EXHIBIT 9

---



## Ministry of Finance: TelexFree “not sustainable”

Mar.17, 2013 in [companies](#), [TelexFree](#)



In mid February we reported that Brazil’s Bureau of Consumer Protection (Procon) had launched an investigation into [TelexFree](#), an MLM scheme run out of Brazil, back in January 2013.

Procon’s investigation was concluded in February, with the bureau identifying “several controversial issues and possible crimes” in connection to the operation of TelexFree.

Following their investigation, Procon lodged an official complaint in Brazil and forwarded their findings to the State Prosecutors Office, the Minister of Finance and the Federal Police.

As of yet no information has surfaced on any action from the State Prosecutors Office or Federal Police. Brazil’s Minister of Finance however did launch their own investigation following Procon’s complaint, declaring late last week that TelexFree was “not sustainable”.

BehindMLM reader “Frontier” was first to alert us to the breaking news last week, citing a news report in Portuguese that announced the Ministry of Finance had concluded their investigation into TelexFree.

With Google translate not providing what I felt was an accurate translation of events, I held off writing about it but woke up today to find a [more translatable article](#) had been posted by the Brazilian website “iG”.

The Telexfree business of selling packages of internet telephony (VoIP, its acronym in English), is not sustainable and suggests a Ponzi scheme, which is a crime against the popular economy.

That is the conclusion of the Secretariat for Economic Monitoring of the Ministry of Finance (Seae / MF) in a statement on Thursday (14).

I’m not entirely sure how the Ministry of Finance (MoF) released their statement but the iG article suggests a court was involved,

The court further stated that the company responsible for the business Ympactus Comercial LTDA., Has partnerships with mobile operators or fixed, which would be necessary to ensure the provision of VoIP services, nor authorization to practice trading activities.

If I’m reading the above correctly (I believe “nor” is supposed to read “not”), the court is stating that evidence of VOIP business relations exist between Ympactus Commercial (TelexFree’s parent company) and mobile operators, however said relationships do not permit TelexFree to run an unsustainable Ponzi scheme.

According to the agency, there is evidence of two irregularities: stimulate the informal economy, because “the most substantial financial gains do not come the ads, but the entry of new publishers on the network’s original publisher (...)

If there is no entry of new stakeholders, it is impossible to get the advertised gains, indicating, unless contrary interpretation, the lack of sustainability of the business.

The above pretty much aligns with my own research into TelexFree ([see BehindMLM TelexFree review here](#)), with any VOIP services offered simply being a front for the AdCentral Ponzi scheme component of the business.

Following their investigation, the MoF announced that they will forward their findings to the Federal Police and Federal Public Ministry. Whether or not either agency moves on the scheme remains to be seen.

BehindMLM reader "[Brazilian](#)", suggests that government action against the company seems unlikely:

Brazilian law is too permissive for this kind of system. I don't even remember any case where authorities shut down a scheme that was still active, recruiting. In nearly all cases, they wait until the "bubble" blows.

A few weeks ago I was [contacted by TelexFree's attorney and well-known MLM industry Gerry Nehra](#), who claimed that

the TelexFREE business model in the USA is NOT an investment, uses NO investment language, and pays ONLY on the sale of its VOIP long distance product.

When I pointed out that TelexFree in the US uses the exact same investment business model as in Brazil and included screenshots of the TelexFree website demonstrating as much, I never heard back from him.

Stay tuned.

---

# EXHIBIT 10

---

- [Home](#)
- [About](#)
- [Contact](#)
- [RSS](#)
- [Email RSS](#)



## Brazilian Court suspends TelexFree operations

Jun.20, 2013 in [TelexFree](#)



When news broke back in February that [TelexFree was under criminal investigation in Brazil](#), many TelexFree affiliates went into a panic with the company's then recent attempt at US market penetration stalling.

Then, after the Ministry of Finance came out and publicly declared that TelexFree was "not sustainable" and "a Ponzi scheme", court action escalated and, to the best of my knowledge, somewhere along the line an order was passed prohibiting the Ministry of Finance from issuing any further statements on the case (which remained in progress), and to take down information they had already published.

As is common with Ponzi schemes, affiliates with the most to lose in the company and fearful of the impact the Ministry of Finance's statements would have on their investor recruitment efforts, news of the above order somehow got turned [into this](#):

It's official! The investigation on TelexFree has been absolved of what Behind MLM has researched and posted.

Comments like the above were widely circulated by TelexFree affiliates in a campaign of misinformation, aimed at reassuring existing and prospective investors that TelexFree's Brazilian regulatory problems were over.

Cue breaking news of continued Brazilian regulatory action against TelexFree in 3... 2... 1...

Spearheaded by public prosecutors in the Brazilian state of Acre, yesterday a nationally binding court ordered injunction put a stop to TelexFree's business operations, including the registration of new affiliate investors, acceptance of new investments and paying any returns owed on existing affiliate investments.

Brazil's [Globo](#) reports:

The 2nd Civil Court of Rio Branco upheld a civil action proposed by the prosecutor of Acre, and suspended payments and the accession of new contracts multilevel marketing company Telexfree until the final judgment of the principal action, under penalty of a daily fine R \$ 500 thousand.

Holding a press conference yesterday immediately after the order against TelexFree was handed down, Nicole Gonzales from Brazil's Consumer Protection body stated

Owners of the company are suspected of mounting a financial pyramid.

Telexfree in Brazil is recruiting investors and creating a pyramid scheme under the guise of multilevel marketing.

There are multilevel marketing companies already established in the market as Herbalife, Mary Kay and Tupperware.

They work with this system, in the case of Telexfree the interest is not to sell products but to recruit new people.

The focus of Telexfree in Brazil is not the sale of products or services, but membership new people to feed the payment system.

Or in other words, precisely what I had concluded back in July 2012 when I published my initial [review of TelexFree](#).

The order, handed down by Judge Thais Borges, orders TelexFree to effectively cease all business operations in Brazil with the decision affecting *'the promoters of Telexfree across the country or outside'*.

The measure was taken to prevent new people end up involved in the scheme and may be harmed.

An order was also made blocking the bank accounts of administrative and management staff of Telexfree.

What this means for TelexFree's US affiliate investors, and those who were sucked into the recent US recruitment drive is currently unclear.

One thing seems certain though, anybody who tells you TelexFree's regulatory problems in Brazil are over is clearly feeding you porky pies.

Quick to respond to the decision and seeking to reassure their investors that everything was fine, TelexFree uploaded a video to YouTube claiming

the company has not yet been officially notified of the decision but that is taking all measures to overturn the injunction of Justice Acre.

Yeah, good luck with that guys.

The injunction order against TelexFree can be read in its entirety over at the [Acre Public Prosecutor's Office website](#) (Portuguese).

## Boston Flat Rate Movers

bostonflatrate.com

BBB A+ Rating, \$200 Off Your  
Move Local/Long Distance. Online  
Quote!

Like 166 people like this. Sign Up to see what your friends like.

Facebook +1 0

Tweet 2

### Related Posts:

1. [TelexFree can't control Brazilian recruitment?](#) - January 15th, 2014
2. [7th Brazilian state opens TelexFree investigation](#) - July 3rd, 2013
3. [TelexFree gives up in court, lawyer won't comment](#) - August 22nd, 2013
4. [TelexFree's 13th appeal denied in Supreme Court](#) - September 9th, 2013

---

# EXHIBIT 11

---



Portugués Polski

Emergencies: 999 All other calls: 612612 Contact us (/contact-us/)



States of Jersey Police (/)

Search for.. Search

HOME (/) | NEWS & APPEALS (/NEWS-APPEALS/) | BE SAFE (/BE-SAFE/) | ACCESSING INFORMATION (/ACCESSING-INFORMATION/)  
ADVICE (/ADVICE/) | MY PARISH (/MY-PARISH/) | RECRUITMENT (/RECRUITMENT/) | ABOUT US (/ABOUT-US/)

Home (/) News & appeals (/news-appeals/) 2014 (/news-appeals/2014/) Scam warning

## Scam targeting Madeiran community

The States of Jersey Police have been made aware of a potential fraud which is targeting Jersey's Madeiran community.

Guernsey Police have issued a similar appeal.

The scheme is under a company name of TELEXFREE and would require initial investments with the promise of big returns.

The scheme originated from Brazil and is currently being investigated by the Brazilian authorities as it is believed to be fraudulent.

Jersey Police know that islanders have been approached to "invest" in the scheme, but as yet have not had any contact from victims of the scam.

If anyone in Jersey has invested money into a TELEXFREE scheme they should contact the Joint Financial Crimes Unit on Tel: 01534 612250 (during office hours) or Police headquarters on 01534 612612 (at other times).

Share this:

1.1k 74  
Like Tweet

@JERSEYPOLICE



(https://twitter.com/JerseyPolice)

No Parking Church Street  
from 6pm Thursday 8th until  
Friday 9th 12noon.  
ABOUT 6 HOURS AGO

No Parking Esplanade from La  
Route de Liberation to  
Weighbridge Place on  
Thursday 8th May from 4pm  
until Friday 9th May at 2pm.  
ABOUT 6 HOURS AGO

### POPULAR PAGES

[Be Safe \(/be-safe/\)](#)  
[Current vacancies \(/recruitment/current-vacancies/\)](#)  
[Criminal record checks \(/accessing-information/criminal-record-checks/\)](#)  
[Current Appeals \(/news-appeals/appeals/\)](#)

### In this section:

[Appeals \(/news-appeals/appeals/\)](#)

[Media Information \(/news-appeals/media-information/\)](#)

[Social media \(/news-appeals/social-media/\)](#)

[Blogs \(/news-appeals/blogs/\)](#)

[Features \(/news-appeals/features/\)](#)

[News archive \(/news-appeals/news-archive/\)](#)

### REPORT A CRIME

Use our convenient form to help us investigate a crime

[Report a crime \(/report-a-crime/\)](#)

### JOBS

Fancy a career with the States of Jersey Police? Click here for the latest information on how to work for us and what the jobs involve

(/recruitment/)

### ADVICE

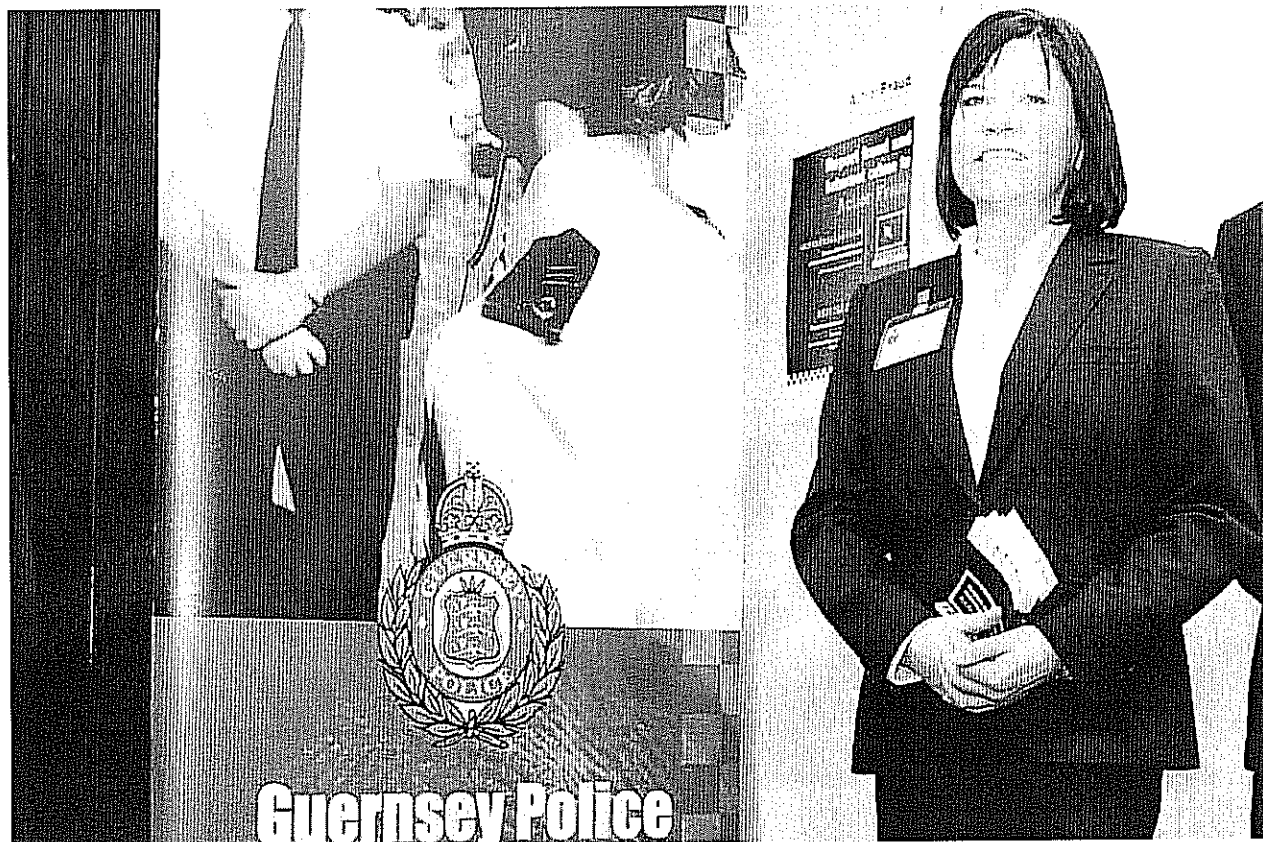
---

# EXHIBIT 12

---

## Madeirans targeted in online Ponzi scam

MADEIRANS locally are being targeted in an investment scam that promises big returns.



The scheme, from a company called Telexfree, originated from Brazil and is currently being investigated by the authorities there.

Guernsey Police posted a notice on its Facebook page yesterday warning islanders.

Detective Sergeant Sarah-Jane Snowdon, pictured, from the Financial Intelligence Service, warned people that if something seemed 'too good to be true' it was often a scam.

'People are being contacted by friends of friends online and you spend a little time a day on adverts. With a few clicks it is done.

'You have to pay an outlay to be part of the scheme.'

DS Snowdon said the fraud was a Ponzi scheme – one that pays returns to investors from their own money or from cash paid in by subsequent investors. After some of those who signed up receive money back, the message spreads and the scam gains credibility.

But once fraudsters have got what they want, they shut the scheme down and 'investors' lose out.

---

# EXHIBIT 13

---

**Ilextree LLC**  
**Balance Sheet**  
As of December 31, 2013

	<u>Total</u>
<b>ASSETS</b>	
Current Assets	
Bank Accounts	
100103 ProPay	98,463.24
100104 TD Bank 2808	0.00
100105 TD Bank 0334	0.00
100106 TD Bank 8409	295,921.23
100107 Citizens Bank	0.00
100109 Fidelity Bank 3842	-200.00
100110 Fidelity Bank Sweep 7884	2,041.16
100111 e-Wallet	31,640,192.30
100113 Middlesex Savings	<u>5,467,660.06</u>
Total Bank Accounts	\$ 37,504,077.99
Other current assets	
Loan to TelexElectric, LLLP	2,022,329.00
Loan to Telexfree Financial Inc	3,800,475.30
Loan to Telexfree Inc	0.00
Loan to TelexMobile	500,870.00
Loan to Ympactus	291,808.02
Propay Reserve	<u>4,468,411.11</u>
Total Other current assets	\$ 11,083,893.43
Total Current Assets	\$ 48,587,971.42
Fixed Assets	
Accumulated Depreciation	-9,575.10
Equipment	<u>86,541.68</u>
Total Fixed Assets	\$ 76,966.58
Other Assets	
Citizens Bank Investment	0.00
Fidelity Investment	18,068,960.59
Middlesex Savings Acc 0260	2,000,000.00
Organizational Costs	3,475.00
Security Deposits	5,944.00
Software	97,948.56
Waddell and Reed, Inc	<u>7,299,408.73</u>
Total Other Assets	\$ 27,475,736.88
<b>TOTAL ASSETS</b>	<b>\$ 76,140,674.88</b>
<b>LIABILITIES AND EQUITY</b>	
Liabilities	
Current Liabilities	
Credit Cards	
American Express	0.00
Bank of America Braz Help 0033	0.00

Bank of America Telexfree 2658	0.00
Total Credit Cards	<u>\$ 0.00</u>
Other Current Liabilities	
Commissions Payable	7,642,550.42
Craft Trust Financial	0.00
Federal Income Taxes Payable	21,613,289.00
Loan from Telexfree Inc.	5,390,753.49
Payable to Brazilian Help, Inc	2,671.76
Shareholder Loan	50.00
State/Local Income Tax Payable	3,924,262.30
Telecom taxes payable	<u>23,403.93</u>
Total Other Current Liabilities	<u>\$ 38,596,980.90</u>
Total Current Liabilities	<u>\$ 38,596,980.90</u>
Total Liabilities	<u>\$ 38,596,980.90</u>
Equity	
Retained Earnings	1,109,862.42
Net Income	<u>36,433,831.56</u>
Total Equity	<u>\$ 37,543,693.98</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 76,140,674.88</u>

Thursday, Feb 20, 2014 04:39:29 PM PST GMT-6 - Cash Basis

---

# EXHIBIT 14

---

057-0012  
0116  
December 09 2013

**Citizens Bank**

\*\*\* \$12,900.00 \*\*\* DOLLARS

PAY

TO THE ORDER OF

\* TELEXFREE LLC \*

Drawer: RBS Citizens, N.A.  
Citizens Bank is a division of RBS Citizens, N.A.

*login*  
MEMO:  
*L. Busa 3*

*Arina McLogan*  
AUTHORIZED SIGNATURE

bu6A3

*[Signature]*  
PAY TO THE ORDER OF  
Fidelity Bank  
211370707  
FOR DEPOSIT ONLY  
TELEXFREE LLC  
2/28/12



---

# EXHIBIT 15

---

## Signup procedures for TelexFREE

Note : Be aware that the day your account gets activated, is the start date for your week for posting ads. Make sure you post your ad starting the very first day by 9:00 PM EST

Recent changes. Starting immediately, when you enroll and pay by credit card you will be activated immediately. You will have 5 days from then to upload your ID, see below.

- 1) Go to the webpage for your sponsor, [www.telexfree.com/sponsorname](http://www.telexfree.com/sponsorname)
- 2) Click on the little American Flag at the top right of the screen for English.
- 3) Click on "register". Make sure your sponsor's name is shown at the top next to "indicated now"
- 4) Use the menu options for "packages" to select the package you want to purchase.
- 5) Create your login name. click on "validate" (or anywhere else on the page) and if the message comes up Green, you are good. If it comes up Red, you will have to select another name.
- 6) Complete the rest of the form. **NOTE: Whatever "name" you put down, whether it be your personal name or a company name, is going to be the default name shown on your credit card payment form. So you have to use the name that is on the credit card you will be using to pay with.** Under the address section, the program requires something in the "address 3" box. This can be your suite number or apt number, or you can just put your town name here. The program is looking for a "community" name here. But you have to put something in this box.
- 7) Make sure and select your country.
- 8) Read the policies and procedures and click on the agree button.
- 9) Enter the security code in the box provided, then click on the "sign here" button. The whole process has to be completed within a certain amount of time. If you click the final button and get an error message it will take you back to the input form and you will have to reenter the information needed. Once you click on the assinar button you will get another message asking if you are sure you want to sign up under your sponsor and you will see your sponsors name. As long as the sponsor name is correct, click yes.
- 10) This takes you to a payment screen. Click on the Propay logo and you will get to the screen to enter your credit card info.
- 11) Enter all of your information. For country, the US is shown as Estados Unidos Am?rica.
- 12) Once you click submit, you will get a message that it has been sent for approval. You will be immediately activated. Within 5 days you have to log into your account and submit a signed credit card authorization and a government ID like a drivers license. This is for the credit card processor. Go to the Telexfree website and enter your login info in the top right corner. You should now see a message in the box which says you still need to load documents. If not click on Statement, Pay Bills. A screen will come up asking you to submit two documents. The first is a signed authorization. Click on the link to download the PDF form. Fill this out and sign it. You will see your invoice number on the screen. Scan it in as a pdf file and upload it using the upload button on the page. If you cannot upload it, you can fax it to the company.
- 13) You also have to upload a copy of your driver's license or other photo ID or fax it to the company.

- 14) **IMPORTANT** – Once you have uploaded the files, a green button will appear that says “Enviar”. This translates to “send”. You have to click on this button to actually send your files. If you don’t, they don’t actually get uploaded and you will have to do it again.
- 15) **Make sure you start posting your ads right away.** The day you sign up is the day your week starts for posting ads.
- 16) **IMPORTANT** – TelexFREE will only let you use a credit card 2 times in any one month. If you are purchasing multiple positions, you will have to deposit funds into the corporate account for some of your positions. To use the corporate account, make a deposit at either Bank of America or at TD Bank. Write on the deposit slip your user name and the invoice number you are paying. Scan a copy of the deposit slip into your computer and email it to the company at [contato@telexfree.com](mailto:contato@telexfree.com).

Bank account info: (choose one of the two options)

**1) Bank of America**

TelexFREE LLC

225 Cedar Hill St. Suite 200

Marlboro, MA 01752

Acc: 004635167408

Routing No. 011000138

**2) TD Bank**

TelexFREE LLC

225 Cedar Hill St. Suite 200

Marlboro, MA 01752

Acct. 8249392808

Routing No. 211370545

Note – if you make deposits at TD Bank – send a copy of the deposit slip, with your user name and invoice number written on it to, [sdelarosavanterpool@gmail.com](mailto:sdelarosavanterpool@gmail.com) and [sann@vicss.com](mailto:sann@vicss.com)

## Customers:

How to become BINARY Qualified:

To be fully qualified to earn commissions in the binary comp plan, you have to personally sponsor one person on your left and one person on your right that are adcentral or at least the \$289 level. You also have to have one customer. This can be yourself or someone else.

When you enroll as a distributor, you will see an invoice in your back office for \$49.99 for the service. This is created automatically when you enroll. **DO NOT USE THIS INVOICE**. Instead, read below on how to sign up as a customer.

To sign up as a customer, you first go to your website, [www.telexfree.com/username](http://www.telexfree.com/username). You will see a purple button named "know the software Telexfree" in the middle of the page. Click on this button.

This takes you to an information page about the service. At the bottom of the page is a button labeled "enroll in this plan". Click on this link and you get to an enrollment screen. Right under the top video you will see "site by" user name. Make sure this user name is the correct one you are signing up a customer for. Fill out the input sheet and then the page with your credit card info. Remember on the credit card screen the United States is listed as Estados Unidos Am?rica.

Now if you go into your back office you will see yourself as a customer. It might take a little while to populate.

Translations:

Assinar. Sign by clicking here.

Preencha o campoBairro. Fill in the field for your community. The program wants an entry in the address 3 block. Just enter your city here again. It is asking for your community.

Senhas nao coincide. Passwords do not match

Aguardando Arquivos. Awaiting Documents

Enviar. Click here to Send

Aguarde Aprova?ao. Awaiting Approval

usuario ou senha invalida. user or password not valid