

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MASSACHUSETTS

In re:)	Chapter 11
)	
TELEXFREE, LLC,)	Case No. 14-40987
TELEXFREE, INC., and)	Case No. 14-40988
TELEXFREE FINANCIAL, INC.,)	Case No. 14-40989
)	
Debtors.)	Jointly Administered
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STEPHEN DARR,)	Adv. Proc. No. 18-04091
)	
Plaintiff and)	Judge Melvin S. Hoffman
Counterclaim Defendant,)	
)	
v.)	
)	
UNITED STATES OF AMERICA,)	
DEPARTMENT OF THE TREASURY,)	
INTERNAL REVENUE SERVICE,)	
)	
Defendant and)	
Counterclaim Plaintiff.)	
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**UNITED STATES OF AMERICA’S STATEMENT OF MATERIAL FACTS
IN SUPPORT OF ITS SECOND MOTION FOR PARTIAL SUMMARY JUDGMENT**

In support of its Second Motion for Partial Summary Judgment, Defendant and Counterclaim Plaintiff United States of America, named and sued as United States of America, Department of Treasury, Internal Revenue Service, submits this Statement of Material Facts as to which it contends there is no genuine dispute:

The Debtors’ Structure and Their Owners and Principals

1. The Debtors are TelexFree, LLC, TelexFree, Inc., and TelexFree Financial, Inc.
2. TelexFree, Inc., was initially incorporated as Common Cents Communications in



the Commonwealth of Massachusetts. (**Ex. 1**, ¶ 22.)¹

3. When Common Cents Communications was incorporated in Massachusetts, Carlos Wanzeler was its President, and James Merrill its Treasurer. (**Ex. 1**, ¶ 22.)

4. In February 2012, Wanzeler filed an article of amendment that changed the name of Common Cents Communications to TelexFree, Inc. Later that year, TelexFree, Inc., filed an annual report that listed Wanzeler and Merrill as its sole officers and directors. (**Ex. 1**, ¶ 23.)

5. In July 2012, TelexFree, LLC, was registered as a limited liability company in the State of Nevada. Wanzeler, Merrill, and Carlos Costa were listed as its officers. (**Ex. 1**, ¶ 24.) TelexFree, LLC, was formed to conduct TelexFree's operations outside of Massachusetts. (**Ex. 2**, ¶ 71.)

6. In December 2013, TelexFree Financial, Inc., was incorporated in the State of Florida. (**Ex. 2**, ¶ 73.)

7. Despite their separate legal existences, the Debtors "worked collaboratively in furtherance of the [Ponzi and pyramid scheme, described below]." (**Ex. 2**, ¶¶ 71–75.)

8. Wanzeler and Merrill ran TelexFree's² operations in the United States. In 2012, Wanzeler, Merrill, and Costa owned 50%, 20%, and 30%, respectively, of TelexFree. From 2013 through the collapse of TelexFree in 2014, Wanzeler and Merrill each owned 50% of TelexFree and were its principals. (**Ex. 1**, ¶ 25; **Ex. 2**, ¶¶ 15, 70; **Ex. 3**, at 11 (50-20-30 ownership), 33 (50-50)); **Ex. 4**, at 6 (50-50).)³

¹ An Exhibit List is contained at page iii of the United States' Brief in Support of Its Second Motion for Partial Summary Judgment.

² "TelexFree" is used to refer to the scheme operated through all of the TelexFree entities. A specific entity is designated when its separate existence is relevant to the facts.

³ Exhibits 3, 4, 5, 9, and 11 are offered as proof of what was filed with the IRS, and not for the truth of the matters asserted therein.

The TelexFree Ponzi and Pyramid Scheme

9. Between early 2012 and March 2014, TelexFree “operated a Ponzi and pyramid scheme.” (Proceeding Memo./Order of Ct., Doc. 654, *In re TelexFree, LLC*, Case No. 14-40987 (Bankr. D. Mass. Nov. 25, 2015); **Ex. 1**, ¶ 10.)

10. During that period, TelexFree “purported to be in the business of selling a voice over internet service or ‘VoIP’ that cost \$49.90 per month to conduct international phone calls.” (**Ex. 2**, ¶ 21; **Ex. 1**, ¶¶ 4, 6.)

11. Despite calling itself a VoIP service provider, however, TelexFree derived only 1% of its “hundreds of millions of dollars in revenue” from selling its VoIP service. (**Ex. 1**, ¶ 11.)

12. The remaining 99% of TelexFree’s revenue derived from “people buying into” the Ponzi and pyramid scheme. (**Ex. 1**, ¶¶ 11, 29.c.)

13. At a high level, TelexFree’s Ponzi and pyramid scheme worked as follows:

... TelexFree purported to aggressively market its [VoIP] service by recruiting thousands of “promoters” [referred to as the Participants by the Trustee] to post ads for the product on the Internet. Each promoter was required to ‘buy in’ to TelexFree at a certain price, after which they were compensated by TelexFree, under a complex compensation structure, on a weekly basis so long as they posted ads for TelexFree’s [VoIP] service on the Internet. What TelexFree failed to disclose, however, was that the [VoIP] service was a front, and that the ad-posting requirements were a meaningless exercise, in which promoters cut and paste ads into various classified ad sites provided by TelexFree and already saturated with ads posted by other promoters.

(**Ex. 1**, ¶ 10.)

14. Participants had two ways to buy into the TelexFree Ponzi and pyramid scheme and potentially receive money for the “meaningless exercise” of copying and pasting ads online. First, a Participant could pay TelexFree \$339 and agree to post one ad per day for a year. If the

Participant posted an ad each day, then each week the Participant was entitled to a VoIP package, which could be sold or exchanged for \$20 in credits within the Ponzi and pyramid scheme.

Through this plan, if a Participant posted an ad each day and redeemed the resulting credits for cash, the Participant could be eligible for \$20 per week, or up to \$1,040 for the year, a return of 207%. Second, a Participant could pay TelexFree \$1,425 and agree to post five ads per day for a year. After placing five ads daily for a week, the Participant was entitled to five VoIP packages, which could be sold or exchanged for \$100 in credits. Through this plan, if a Participant posted five ads each day and redeemed the resulting credits for cash,, a Participant could be eligible for \$100 per week, or up to \$5,200 for the year, a return of 265%. (Ex. 2, ¶¶ 23, 26; Ex. 1, ¶¶ 10, 42–45.)

15. The “credits” that Participants could earn for copying and pasting ads online “could be redeemed for cash, transferred to another User Account, or applied in satisfaction of an invoice for another User Account.” Credits were applied in satisfaction of an invoice for another User Account when a Participant recruited a new Participant, the new Participant paid the recruiter the buy-in amount in cash, and the recruiter then used his or her own pre-existing credits to satisfy the invoice owed by the new Participant to TelexFree. (Ex. 2, ¶¶ 26, 29.)

16. TelexFree did not limit the number of times that Participants could buy into its Ponzi and pyramid scheme, which allowed Participants to buy in multiple times and thereby multiply the returns promised to them by TelexFree. (Ex. 1, ¶ 38.)

17. Participants’ promised “earnings” from the TelexFree Ponzi and pyramid scheme were not dependent on their “advertisements” resulting in any sales of TelexFree’s VoIP services. TelexFree was only able to pay Participants “by bringing in money from newly-recruited promoters.” (Ex. 1, ¶ 11.)

18. On TelexFree, LLC's Form 1120X, Amended U.S. Corporation Income Tax Return, for the year 2012, and its Forms 1120, U.S. Corporation Income Tax Returns, for the years 2013 and 2014, described in more detail below at paragraphs 35–36, 44, and 55, the Trustee reported TelexFree's promises to pay Participants for their "advertisements" as "ADVERTISING CREDIT EXPENSE" or "ADVERTISING CREDITS EXPENSE." (**Ex. 3**, at 13, 15, 46; **Ex. 4**, at 16.)

19. Participants in the TelexFree Ponzi and pyramid scheme also could earn money by recruiting other Participants. For recruiting a new Participant who invested \$350, a Participant would earn \$20 in credits; for recruiting a new Participant who invested \$1,425, the Participant would earn \$100 in credits. As in any pyramid or multi-level marketing scheme, a Participant would earn more money if the people that he or she recruited into the scheme in turn recruited more people. (**Ex. 1**, ¶ 47; **Ex. 2**, ¶ 24.a.)

20. On TelexFree, LLC's Form 1120X for the year 2012, and its Form 1120 for the year 2013, described in more detail below at paragraphs 35–36 and 44, the Trustee reported TelexFree's promises to pay Participants for recruiting new scheme victims as "AGENT COMISSION [sic]" or "COMMISIONS [sic]." No similar line item was included on the Form 1120 for the year 2014. (**Ex. 3**, at 15, 46; **Ex. 4**, at 16.)

21. Between February 2012 and April 2014, TelexFree had \$359,792,242 in cash receipts. (**Ex. 2**, at 21.)

The Brazilian Piece of the TelexFree Ponzi and Pyramid Scheme

22. In 2010, Wanzeler registered Ympactus as a corporate entity in Brazil. (**Ex. 1**, ¶ 17.)

23. Ympactus was owned by Wanzeler, Merrill, and Costa. (**Ex. 1**, ¶ 17.)

24. Ympactus was the Brazilian version of the TelexFree Ponzi and pyramid scheme, and started operating in Brazil in early 2012, at about the same time TelexFree began operating in the United States. Ympactus had the same structure and sales terminology as TelexFree. Ympactus shared TelexFree's website and its database for Participants, and used the "TelexFree" brand name in Brazil. (**Ex. 1**, ¶¶ 17, 27; **Ex. 2**, ¶¶ 50, 53.)

25. During 2012 and 2013, TelexFree contends that it "recognized income totaling \$186,053,089 in the form of a net receivable" from Ympactus. (Compl., Doc. 1, ¶ 26.) TelexFree does not allege in the complaint that it reported that net receivable as income on any tax return. (*Id.* ¶¶ 26–28; Answer, Doc. 4, ¶¶ 26–28.)

26. In mid-2013, Brazilian authorities filed claims against Ympactus, Wanzeler, Wanzeler's wife, and Merrill; suspended Ympactus's operations and commenced a civil enforcement action against it; and seized nearly \$300,000,000 from Ympactus. The civil enforcement action resulted in "an injunction prohibiting TelexFree from recruiting new promoters and from taking in funds or paying money to existing TelexFree promoters." A Brazilian court has determined that Ympactus was a pyramid scheme. (**Ex. 1**, ¶ 18; **Ex. 2**, ¶ 51.)

27. Between February 2012 and June 2013, Ympactus had \$1,308,049,021 in cash receipts. (**Ex. 2**, at 21 (Ex. 1 to Darr Affidavit).)

The TelexFree Ponzi and Pyramid Scheme Collapses

28. In 2013, the Massachusetts Securities Division began investigating TelexFree, which contributed to TelexFree announcing changes to its compensation system in early March 2014: Participants would have to actually sell TelexFree's VoIP services to earn compensation. In response to the change, Participants began protesting at its headquarters. (**Ex. 1**, ¶ 12.)

29. On Sunday, April 13, 2014, the Debtors each filed a voluntary Chapter 11 petition

with the United States Bankruptcy Court for the District of Nevada, which ordered that the cases be jointly administered. (Ch. 11 Voluntary Pet'n, Doc. 1, *In re TelexFree, LLC*, Case No. 14-40987 (Bankr. D. Mass.); Ch. 11 Voluntary Pet'n, Doc. 1, *In re TelexFree, Inc.*, Case No. 14-40988 (Bankr. D. Mass.); Ch. 11 Voluntary Pet'n, Doc. 1, *In re TelexFree Fin'l, Inc.*, Case No. 14-40989 (Bankr. D. Mass.); Order Granting Joint Administration, Doc. 77, *In re TelexFree, LLC*, Case No. 14-40987 (Bankr. D. Mass.).) The proceedings were transferred to this Court, and a Chapter 11 trustee, Stephen Darr, was appointed. (Order on Mtn. to Transfer Case/Change Venue, Doc. 203, *In re TelexFree, LLC*, Case No. 14-40987 (Bankr. D. Mass.); Order on Mtn. to Appoint Ch. 11 Trustee, Doc. 234, *In re TelexFree, LLC*, Case No. 14-40987 (Bankr. D. Mass.).)

30. On April 15, 2014, federal agents executed search warrants at TelexFree's headquarters and "intercepted TelexFree's acting Chief Financial Officer ('CFO') trying to leave the premises with a laptop and a bag." The bag contained "ten Wells Fargo Bank cashiers' checks totaling \$37,948,296. Eight of the checks were dated April 11, 2014 (the Friday before the . . . bankruptcy filing) and were remitted to Merrill." Five of those checks "were made out to TelexFree, LLC, in the total amount of \$25,548,809, while one check was made out to Wanzeler's wife, in the amount of \$2,000,635." Another check, "remitted to Wanzeler himself, was made out to TelexFree Dominicana SRL, in the amount of \$10,398,000." Merrill and Wanzeler's wife had traveled to Rhode Island to pick up nine of the checks on or about April 11, 2014. (**Ex. 1**, ¶ 15).

31. Wanzeler fled the United States and is believed to be in Brazil. There is a warrant out for his arrest. (**Ex. 2**, ¶ 15; "United States v. Carlos Wanzeler and James Matthew Merrill," U.S. Attorney's Office, District of Mass. ("Defendant Carlos Wanzeler"), *available at* <https://www.justice.gov/usao-ma/victim-and-witness-assistance-program/united-states-v-carlos->

wanzeler-and-james-matthew-merrill.)

32. Merrill was arrested and ultimately pleaded guilty to one count of wire fraud conspiracy and eight counts of wire fraud. As part of his plea agreement, Merrill forfeited approximately \$140 million, as well as other assets. In 2017, Merrill was sentenced to six years in prison and three years of supervised release. He remains incarcerated with a release date in 2022. (Plea Agreement, Doc. 314, at 1, *United States v. Merrill*, Case No. 14-40028 (D. Mass.); Electronic Clerk’s Notes For Sentencing Proceeding, Doc. 346, *id.*; Preliminary Order of Forfeiture, Doc. 347, *id.*; “Former President of Telexfree Sentenced for Billion Dollar Pyramid Scheme,” Dep’t of Justice, U.S. Attorney’s Office, District of Mass. (Mar. 22, 2017), *available at* <https://www.justice.gov/usao-ma/pr/former-president-telexfree-sentenced-billion-dollar-pyramid-scheme> (stating that forfeiture included “approximately \$140 million and other assets”); “Find an inmate,” Bureau of Prisons, *available at* https://www.bop.gov/mobile/find_inmate/byname.jsp#inmate_results (search for James M Merrill).)

33. In 2017, a Brazilian national pleaded guilty to conspiracy to money laundering, for his intention to launder approximately \$20 million from the TelexFree scheme—which federal authorities found in a mattress box spring—to Wanzeler in Brazil. (*See* “Brazilian National Pleads Guilty to Scheme to Launder \$20 Million in Proceeds from the TelexFree Fraud,” Dep’t of Justice, U.S. Attorney’s Office, District of Mass. (Oct. 19, 2017), *available at* <https://www.justice.gov/usao-ma/pr/brazilian-national-pleads-guilty-scheme-launder-20-million-proceeds-telexfree-fraud>.)

TelexFree, LLC’s Tax Returns, the IRS Audit, and the IRS’s Claims

A. Tax Year 2012

34. In September 2013, TelexFree, LLC, filed a Form 1120, U.S. Corporation Income

Tax Return, for the tax period ending December 31, 2012. On the return, TelexFree reported total income of \$2,080,067, claimed deductions totaling \$62,065, and reported tax due of \$686,121 and an estimated tax penalty due of \$6,733, for a total amount owed of \$692,854. Based on that return, on September 30, 2013, the Internal Revenue Service assessed TelexFree, LLC, income taxes of \$686,121, and penalties and interest totaling \$198,984.24. Through a payment of \$706,713.79 on October 16, 2013, and a payment of \$179,986.86 on December 12, 2013, TelexFree, LLC, fully paid its income tax liability for 2012. (**Ex. 3**, at 19; **Ex. 12**, at 1–2.)

35. On or about September 9, 2016, the Trustee sent the IRS two tax returns for TelexFree, LLC, dated that same day that each requested a refund: a Form 1120X, Amended U.S. Corporation Income Tax Return, for the tax period ending December 31, 2012 (attached to which was a copy of the original Form 1120 for that period), and a Form 1120, U.S. Corporation Income Tax Return for the tax period ending December 31, 2013. (*See* **Ex. 3**, at 1.)

36. Through the Form 1120X for 2012, the Trustee sought a refund of \$692,854 in taxes previously paid toward TelexFree’s 2012 income taxes. The Trustee reported that TelexFree, LLC, had \$15,407,680 in total income, and claimed deductions totaling \$16,647,623, for taxable income of (\$1,239,943). The claimed deductions included \$1,175,236 for “AGENT COMISSION [sic]” and \$9,829,080 for “ADVERTISING CREDIT EXPENSE.” (**Ex. 3**, at 3, 6, 15.)

37. The IRS disallowed the claim for refund contained on the Form 1120X for 2012. (**Ex. 6**, at 4.)

38. On or about March 7, 2018, the Trustee submitted a second Form 1120X, dated March 7, 2018, to the IRS, again seeking a refund of \$692,854. On the second Form 1120X, the Trustee reported that TelexFree, LLC, had \$18,220,915 in gross receipts or sales and

\$17,866,860 in total income, claimed deductions totaling \$4,430,999, and claimed a net operating loss deduction of \$13,435,861, which led the Trustee to report \$0 in taxable income and tax due. The second Form 1120X no longer claimed the commissions and advertising credit expenses as deductions. The second Form 1120X contained a new deduction for “GROSS CREDIT LIABILITY ACCRUAL” of \$4,261,846. The Trustee explained that the gross credit liability accrual deduction represented “[t]he credits deposited in Ponzi scheme users’ accounts during 2012,” which reflected \$3,407,954 redeemed by users to satisfy invoices and \$853,892 redeemed by users for cash. (**Ex. 5**, at 1, 5, 14, 15; **Ex. 7**, at 3 (Response to Interrogatory No. 2).)

39. Of TelexFree’s reported \$18,220,915 in gross receipts, “\$2,943,517 was received by TelexFree in cash”; “\$3,407,954 was based upon credits redeemed by participants”; “\$87,525 was earned through the sale by TelexFree of VoIP service”; and “\$6,152,768 was earned by the sale by TelexFree of membership plans to participants.” (**Ex. 7**, at 3 (Response to Interrogatory No. 1).)

40. The IRS disallowed the claim for refund contained on the second Form 1120X for 2012, based on its disallowance of the gross credit liability accrual expense and the net operating loss. (*See* **Ex. 6**, at 1, 4.).

41. The IRS has not filed a proof of claim or a request for payment of administrative expenses for the year 2012.

B. Tax Year 2013

42. On or about March 17, 2014, TelexFree, LLC, attempted to pay the IRS \$15,792,982 toward its 2013 income taxes. The payment was dishonored and the IRS assessed a dishonored payment penalty of \$315,859.64. (**Ex. 13**, at 1–2; Doc. 22-1, Bankruptcy Specialist

Declaration, ¶ 11.)

43. On or about March 31, 2014, TelexFree, LLC, paid the IRS \$15,792,982 toward its 2013 income taxes. (**Ex. 13**, at 2.)

44. Through the Form 1120 for 2013 that the Trustee submitted to the IRS on or about September 9, 2016, the Trustee sought a refund of \$15,858,111 in taxes previously paid toward TelexFree's 2013 income taxes. The Trustee reported that TelexFree, LLC, had \$861,540,102 in total income, and claimed deductions totaling \$2,963,526,039, for taxable income of (\$2,101,985,935). The claimed deductions included \$186,344,898 for bad debts, \$622,588,034 for "COMMISSIONS [sic]," and \$2,151,645,140 for "ADVERTISING CREDITS EXPENSE." (**Ex. 3**, at 28, 46.)

45. The Form 1120 for 2013 dated September 9, 2016, was selected for examination. Despite a bankruptcy/litigation hold code in place on TelexFree, LLC's 2013 account in the IRS's internal computer system that should have prevented the issuance of a refund for that year, a computer-generated refund in the amount of \$15,532,440.39 was sent to the Trustee for the 2013 tax year, and interest in the amount of \$55,318.03 was credited to the account. The sum of the computer-generated refund and the interest credited to the account represented the \$15,792,982 TelexFree paid toward its 2013 income taxes, minus the dishonored payment penalty of \$315,859,64. (Doc. 22-1, Bankruptcy Specialist Declaration, ¶¶ 7–11; Doc. 22-2, Revenue Agent Declaration, ¶¶ 6–9; **Ex. 13**, at 1–2.)

46. The IRS filed a request for payment as an administrative expenses under 11 U.S.C. § 503 against TelexFree, LLC, for corporate income tax for the year 2013 in the amount of \$15,532,440.39, and filed a counterclaim in this adversary proceeding for the recovery of the erroneous refund. The administrative expense for 2013 arose from the IRS's erroneous refund to

the Trustee. (Claim No. 2987-2, *In re TelexFree, LLC*, Case No. 14-40987; Doc. 22-1, Bankruptcy Specialist Declaration, ¶¶ 7–11; Doc. 4, ¶¶ 74–84.)

47. At the conclusion of its audit of the Form 1120 for 2013, on October 31, 2017, the IRS issued a Letter 531, Notice of Deficiency, to TelexFree, LLC, with copies to the Trustee and the Trustee’s counsel, in which the IRS notified TelexFree, LLC, that it had determined that TelexFree owed an additional \$300,507,248 in income tax for the year 2013, as well as a penalty of \$75,126,857 pursuant to 26 U.S.C. § 6651(a)(1). (**Ex. 8**, at 1, 8, 10–12.)

48. The IRS’s Notice of Deficiency was based on its disallowance of three deductions claimed on TelexFree, LLC’s income tax return for 2013: the bad debt deduction of \$186,344,898; the deduction for “Commissions” of \$622,588,034; and the deduction for “Advertising Credits” of \$2,151,645,140. As a result of this \$2,960,578,072 adjustment to TelexFree’s reported income, TelexFree’s revised taxable income was \$858,592,137 and its corrected tax liability based on that revised taxable income was \$300,507,248. (**Ex. 8**, at 10 (Statement – Income Tax Changes).)

49. The IRS filed a proof of claim under 11 U.S.C. § 502 for an unsecured priority claim against TelexFree, LLC, for corporate income tax for the year 2013 in the amount of \$285,710,294.86, representing tax of \$285,030,125.64 and interest to the petition date of \$680,169.22. The proof of claim also included an unsecured general claim of \$71,188,566.50 for penalties to the petition date. (Claim No. 2988-1, *In re TelexFree, LLC*, Case No. 14-40987.) These amounts did not include the erroneous-refund portion of the claim asserted as an administrative expense.

50. On or about March 7, 2018, the Trustee filed a Form 1120X, Amended U.S. Corporation Income Tax Return, for TelexFree, LLC, for the tax year ending December 31,

2013. On the Form 1120X, the Trustee increased TelexFree's reported total income to \$1,167,954,153 based on gross receipts or sales of \$1,173,886,556; decreased the claimed deductions to \$1,171,098,004; and reported taxable income of (\$3,143,851). The Form 1120X for 2013 contained the same bad debt expense as described in paragraphs 44 and 48, above, but no longer claimed the commissions and advertising credit expenses. In lieu of the commissions and advertising credit expenses, the Trustee claimed a deduction of \$972,955,648 for "GROSS CREDIT LIABILITY ACCRUAL." (**Ex. 9**, at 1, 4, 17.)

51. Of the \$1,173,886,556 in gross receipts or sales reported on the Form 1120X for 2013, "\$156,227,156 was received by TelexFree in cash"; "\$843,475,755 was based upon credits redeemed by participants"; "\$65,633,371 was earned through the sale by TelexFree of VoIP service"; and "\$934,252,624 was earned by the sale by TelexFree of membership plans to participants." (**Ex. 7**, at 4 (Response to Interrogatory No. 3).)

52. Of the \$972,955,648 for gross credit liability accrual, \$68,144,795 represented credits redeemed for cash, \$843,475,755 represented credits redeemed to satisfy invoices, and \$61,335,098 represented credits outstanding at the end of the year. (**Ex. 7**, at 4–5 (Response to Interrogatory No. 4); **Ex. 9**, at 18.)

53. The IRS did not accept the Form 1120X for the year 2013 for processing, and did not make any changes to its proof of claim or its request for payment of administrative expenses for the year 2013 based on it.

C. Tax Year 2014

54. TelexFree, LLC, never made any payments toward its 2014 income taxes. (**Ex. 14**, at 1–2.)

55. On or about June 20, 2017, the Trustee sent the IRS a Form 1120, U.S.

Corporation Income Tax Return, for TelexFree, LLC, for the tax year 2014. Through the Form 1120 for 2014, the Trustee reported that TelexFree, LLC, had \$161,550,353 in total income, and claimed deductions totaling \$2,450,176,063, for taxable income of (\$2,288,625,710). The claimed deductions included an “ADVERTISING CREDITS EXPENSE” of \$2,442,705,606. (Ex. 4, at 1, 16.)

56. On November 7, 2017, the IRS issued Notices of Proposed Adjustment proposing the following adjustments to the Form 1120 for the year 2014: the disallowance of the \$2,442,705,606 deduction for advertising credits expense; the disallowance of the \$2,578,363,363 net operating loss; and, the assessment of a failure-to-file penalty. With the disallowance of the advertising credits expense, the IRS calculated TelexFree’s corrected income tax liability for 2014 as \$53,927,964, and its failure-to-file penalty as \$13,481,991. (Ex. 10, at 1–2, 11–14.) The IRS is in the process of issuing a notice of deficiency based on these adjustments.

57. On November 30, 2017, the IRS filed a request for payment of an administrative expense against TelexFree, LLC, for corporate income tax for the year 2014 in the amount of \$53,927,964. (Claim No. 2987-2, *In re TelexFree, LLC*, Case No. 14-40987.)

58. On or about March 7, 2018, the Trustee filed a Form 1120X, Amended U.S. Corporation Income Tax Return, for TelexFree, LLC, for the tax year ending December 31, 2014. On the Form 1120X, the Trustee increased TelexFree’s reported total income to \$2,065,852,478 based on gross receipts or sales of \$2,067,416,945; increased the claimed deductions to \$2,601,446,626; and reported taxable income of (\$535,594,148). The Form 1120X for 2014 no longer claimed the advertising credit expense described above at paragraph 55. The Trustee claimed a deduction of \$148,000,000 for “165 LOSS SEC ASSET SEIZURE” and a

deduction of \$2,442,705,607 for “GROSS CREDIT LIABILITY ACCRUAL.” (**Ex. 11**, at 1, 3, 6, 17.)

59. Of the \$2,067,416,945 in gross receipts or sales reported on the Form 1120X for 2014, “\$200,621,569 was received by TelexFree in cash”; “\$1,866,795,376 was based upon credits redeemed by participants”; “\$404,504,071 was earned through the sale by TelexFree of VoIP service”; and “\$1,662,962,874 was earned by the sale by TelexFree of membership plans to participants.” (**Ex. 7**, at 5 (Response to Interrogatory No. 5).)

60. Of the \$2,442,705,607 for gross credit liability accrual, \$83,212,109 represented credits redeemed for cash, \$1,866,795,376 represented credits redeemed to satisfy invoices, and \$554,033,219 represented credits outstanding at the end of the year. (**Ex. 7**, at 6 (Response to Interrogatory No. 6); **Ex. 11**, at 18.)

61. The \$148,000,000 deduction pursuant to 26 U.S.C. § 165 represented a claimed “casualty loss . . . based upon information provided by the United States, including statements made in the Sentencing Memorandum filed on March 16, 2017 [document number 332] in criminal action 14-CR-40028-TSH, United States District Court for the District of Massachusetts,” *i.e.*, primarily for Merrill’s forfeiture of assets totaling approximately \$140,000,000 as part of his criminal sentence, as described above at paragraph 32. On or about June 18, 2019, the Trustee received \$145,471,294 from the United States Treasury. (**Ex. 7**, at 6–7 (Response to Interrogatory No. 7).)

62. The IRS did not accept the Form 1120X for the year 2014 for processing, and did not make any changes to its request for payment of administrative expenses for the year 2014 based on it.

This Adversary Proceeding

63. On July 30, 2018, the Trustee filed the Complaint in this Adversary Proceeding. Through this proceeding, the Trustee seeks declaratory judgments that: (1) the “TelexFree Credits [and the Ympactus bad debt] as claimed on the TelexFree, LLC Amended Tax Returns for the tax years 2012, 2013, and 2014 are ordinary and necessary expenses of the operation of TelexFree and are deductible, pursuant to 26 U.S.C § 162”; (2) TelexFree had no taxable income for the years 2012, 2013, and 2014, is entitled to a refund of \$886,700 for 2012 (reflecting \$692,854 in taxes paid and “interest and penalties of \$193,847”), and is entitled to keep the erroneous refund for 2013; (3) disallow the IRS’s proofs of claims; (4) if TelexFree, LLC, has income tax liability for 2013, any claim from the erroneous refund is entitled to prepetition priority unsecured claim status pursuant to 11 U.S.C § 507(a)(8); and, (5) if TelexFree, LLC, has any income tax liability for 2014, any liability is entitled to prepetition unsecured claim status pursuant to 11 U.S.C § 507(a)(8). (Complaint, Doc. 1, at ¶ 32, and pp.17–18 (prayer for relief).)

64. On September 4, 2018, the United States answered the Complaint and asserted a Counterclaim against the Trustee seeking a judgment in the amount of \$15,532,440.39 for the erroneous refund issued to the Trustee for TelexFree, LLC’s federal income taxes for 2013. (Answer and Counterclaim, Doc. 4, at ¶¶ 74–84, D.)

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65. The Trustee and the United States have filed cross-motions for partial summary judgment related to Counts IV and V of the Complaint, which relate to the priority to be accorded to the IRS's proofs of claim and requests for payment of administrative expenses. (Docs. 12, 21.)

Dated: September 20, 2019

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of September, 2019, I electronically filed the foregoing document with the Clerk of Court using the CM/ECF system, which will send notification of such filing to all registered CM/ECF participants. There are no parties that require conventional service.

/s/ Lauren E. Hume
LAUREN E. HUME
Trial Attorney
United States Department of Justice, Tax Division

AFFIDAVIT OF JOHN S. SOARES IN SUPPORT OF CRIMINAL COMPLAINT

I, Special Agent John S. Soares, being duly sworn, state:

Exhibit

1

Introduction

1. I am an investigative or law enforcement officer of the United States within the meaning of 18 U.S.C. § 2510(7), in that I am empowered by law to conduct investigations of, and to make arrests for, offenses enumerated in 18 U.S.C. § 2516.

2. I am a Special Agent with the United States Department of Homeland Security (“DHS”), Homeland Security Investigations (“HSI”). I have served in this capacity since May 2009. My current responsibilities include conducting federal criminal investigations, including investigations of financial fraud schemes, money laundering, and violations of the Bank Secrecy Act, and participating in operations to protect the United States from exploitation of legitimate trade, travel, and financial systems. I have received specialized training in investigating financial crimes, money laundering, and asset forfeiture. During my employment with HSI, I have been involved in the investigation of financial crimes, fraud schemes, money laundering, and in identifying and seizing criminally derived proceeds and property.

3. As an agent assigned to this matter, I have personally participated in many aspects of the investigation described below. I am also familiar with the facts and circumstances of the investigation through discussions with other HSI personnel and others, and from my review of business records, reports and other materials relating to the investigation.

4. I submit this affidavit for the limited purpose of establishing probable cause to support a criminal complaint charging Carlos N. Wanzeler (“Wanzeler”) and James M. Merrill (“Merrill”) with, between in or about January 2012 and in or about April 2014, conspiring to

commit wire fraud, in violation of 18 U.S.C. § 1349, based on their operation of a substantial pyramid scheme.

5. The facts in this affidavit are drawn from my review of documents and data obtained during the investigation, my training and experience, and information obtained from other agents. This affidavit is only intended to show that there is sufficient probable cause for the requested warrants. It does not contain all facts relevant to this matter.

Allegations Pertaining to Probable Cause

I. Overview

6. TelexFree, Inc., and TelexFree LLC (collectively, “TelexFree”) ostensibly provide “voice-over-internet-protocol” (“VOIP”) telephone services, for which customers can sign up via a Web site maintained by TelexFree. Based on our investigation, however, TelexFree is actually a pyramid scheme.

7. Based on my training and experience, a pyramid scheme typically involves a seemingly legitimate business that purports to sell a product but actually derives the bulk of its revenue not from selling the product to third parties but from recruiting new participants to pay into the system. The hallmark of these schemes is typically a promise of substantial returns in a short period of time for doing little beyond paying into the organization and convincing others to do the same.

8. People operating pyramid schemes often go to great lengths to layer the program with jargon, procedural complexities, a formalized hierarchy of participation, and other trappings that create the appearance of a legitimate company pursuing a (legal) multi-level marketing program. But, as in “Ponzi”-type schemes, the organizers simply take in money from newly-invested participants and use those funds to pay the returns promised to earlier participants.

9. Again like Ponzi schemes, pyramid schemes are ultimately unsustainable because the returns promised to an ever-growing number of participants must be paid using funds deposited by a necessarily finite pool of new participants. At some point the scheme must become too big, that is, it must run out of new participants depositing sufficient cash to cover commitments to earlier participants and, because the underlying product is not in fact profitable, most of the scheme's participants lose their money.

10. In this case, between about January 2012 and March 2014, TelexFree purported to aggressively market its VOIP service by recruiting thousands of "promoters" to post ads for the product on the Internet. Each promoter was required to "buy in" to TelexFree at a certain price, after which they were compensated by TelexFree, under a complex compensation structure, on a weekly basis so long as they posted ads for TelexFree's VOIP service on the Internet. What TelexFree failed to disclose, however, was that the VOIP service was a front, and that the ad-posting requirements were a meaningless exercise, in which promoters cut and paste ads into various classified ad sites provided by TelexFree and already saturated with ads posted by other promoters.

11. In fact, as TelexFree's bank records and "back office" business data attest, it derived only a fraction of its revenue from sales of VOIP service – about 1% of TelexFree's hundreds of millions of dollars in revenue over the last two years. The overwhelming majority of its revenue came from new people buying into the scheme. In fact, TelexFree was only able to pay the returns it had promised to its existing promoters by bringing in money from newly-recruited promoters.

12. In 2013, the Massachusetts Securities Division ("MSD") began investigating TelexFree, including serving TelexFree with demands for various kinds of information about its

operations. On or about March 9, 2014, TelexFree announced changes to its compensation system that appear to have been prompted at least in part by the MSD investigation. (Under the prior system, discussed further below, TelexFree promoters could invest in the company and make money without selling any actual product.) In video clips posted on YouTube, a TelexFree senior executive admitted to TelexFree promoters that the changes were necessary “to come into compliance.” Soon after the changes were announced, promoters began protesting at TelexFree’s Marlborough, Massachusetts, headquarters because the new system required them to actually sell TelexFree’s VOIP product and, as one promoter told a news reporter, “It’s almost impossible to sell.”

13. On April 14, 2014, the TelexFree scheme collapsed: Facing massive liabilities to its existing promoters, TelexFree and its related entities filed for voluntary Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the District of Nevada (No. 14-12524-ABL). In a declaration filed in the bankruptcy proceeding on behalf of the company, the company said, among other things, that it changed its compensation plan in March 2014 “[b]ecause questions were raised” about the prior plan. TelexFree also admitted that it was entering bankruptcy because, after changing the compensation plan, “These discretionary payments [that is, payouts to current investors] quickly became a substantial drain on the Company’s liquidity.” In other words, once new investor dollars stopped coming in, TelexFree was unable to pay its current investors.

14. The day of the bankruptcy filing, TelexFree’s web site, which all TelexFree promoters use to manage their accounts and transfer funds paid to them by TelexFree, became inoperative. The company posted a notice on the site telling its investors that the situation was temporary and that TelexFree looked forward to reorganizing and continuing to do business.

15. The next day, April 15, 2014, federal agents executed three search warrants, including at TelexFree's headquarters in Marlborough, Massachusetts. During that search, a law enforcement officer intercepted TelexFree's acting Chief Financial Officer ("CFO") trying to leave the premises with a laptop and a bag. Initially, the acting CFO said he was a consultant for TelexFree and was retrieving personal items. In the bag, however, law enforcement officers found ten Wells Fargo Bank cashiers' checks totaling \$37,948,296. Eight of the checks were dated April 11, 2014 (the Friday before the April 14, 2014, bankruptcy filing) and were remitted¹ to Merrill. Of these, five checks were made out to TelexFree LLC, in the total amount of \$25,548,809, while one check was made out to Wanzeler's wife, in the amount of \$2,000,635. One check, dated April 3, 2014, and remitted to Wanzeler himself, was made out to TelexFree Dominicana SRL,² in the amount of \$10,398,000.

16. Law enforcement officers seized the checks. Agents later determined that Merrill and Wanzeler's wife had traveled to Rhode Island on or about April 11, 2014, to pick up the checks (except the check made out to TelexFree Dominicana SRL, which had been picked up by Wanzeler earlier in April) from a Wells Fargo branch in Rhode Island.

II. The Brazilian Investigation of TelexFree

17. TelexFree operated in Brazil, initially under a different name, before basing itself in the United States. Announcing that it had uncovered "evidence of crimes," the Brazilian government began investigating TelexFree in or about January 2013 and eventually shut it down. Documents provided by Brazilian law enforcement authorities, among other sources, show that

¹ That is, Merrill was identified on the checks themselves as the remitter and purchaser of each check.

² TelexFree Dominicana SRL appears to be an entity separately established in the Dominican Republic with business operations similar to TelexFree in the United States.

TelexFree in Brazil operated with effectively the same structure, and even the same sales terminology, as TelexFree later used in the United States, and that the Brazilian consumer protection authorities soon concluded that TelexFree was a pyramid scheme. The Brazilians also determined that Wanzeler, Merrill, and a third person, Carlos Costa, owned the Brazilian entity. It appears that Wanzeler registered the entity in Brazil in 2010, naming it “Ympactus,” which began doing business as TelexFree in 2012.

18. The Brazilian investigation resulted in a Brazilian civil enforcement action against TelexFree in June 2013, in which the Brazilian government won an injunction prohibiting TelexFree from recruiting new promoters and from taking in funds or paying money to existing TelexFree promoters.³ Despite numerous appeals by TelexFree, as of the date of this affidavit the injunction remains in effect.

19. In March 2014, both Wanzeler and Merrill were subpoenaed to give sworn testimony before the MSD. According to Wanzeler’s testimony, the Brazilian government froze about \$350,000,000 in funds belonging to TelexFree. Records from the Brazilian Ministry of the Treasury show that, since TelexFree began recruiting promoters in Brazil, TelexFree bank accounts in Brazil had received about \$446,000,000 in U.S. dollars. The records also noted that on or about February 19, 2013, TelexFree’s Brazilian bank balances totaled over \$200,000,000. The Brazilian Ministry of Treasury materials also showed that transfers were made from

³ Based on public news sources, after the order was issued a representative of the Brazilian government said, “Owners of the company [TelexFree] 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.”

TelexFree bank accounts to Brazilian bank accounts belonging to Wanzeler, and from there to U.S. accounts in Wanzeler's name.

20. As discussed further below, a review of filings by U.S. banks for TelexFree's banking activity in 2012 – 2013 show a pattern similar to the activity uncovered in Brazil: significant sums deposited to TelexFree accounts, generally in small amounts, which were rapidly disbursed, again in small amounts. Meanwhile, based on the government's investigation, little of the money appeared to be derived from selling a product to genuine retail customers.

III. TelexFree's Corporate Structure in the United States and its Connection to Merrill and Wanzeler

21. According to incorporation paperwork on file with the Commonwealth of Massachusetts and other states, Wanzeler and Merrill own and operate a U.S. company called TelexFree, Inc., as well as certain related entities.

22. Through a review of public records, the government learned that TelexFree was originally known as "Common Cents Communications." Common Cents Communications was incorporated in Massachusetts in December 2002 and listed Carlos Wanzeler as President and James Merrill as Treasurer. Two other men were listed as directors of the corporation.

23. In February 2012, Common Cents Communications filed an article of amendment with the Commonwealth of Massachusetts, changing the name of the corporation to "TelexFree, Inc." The article of amendment was filed by Wanzeler in his capacity as President. In October 2012, TelexFree, Inc., filed an annual report with the Massachusetts Secretary of State, in which Wanzeler and Merrill were listed as the sole officers and directors of the company. The incorporation documents for TelexFree list a corporate address in Marlborough, Massachusetts.

24. In July 2012, an entity named "TelexFree" was registered as a limited liability company ("LLC") in the State of Nevada. The company listed Wanzeler, Merrill, and Carlos

Costa as officers of the LLC. In April 2013, TelexFree LLC filed an application for registration as a foreign limited liability company with the Massachusetts Secretary of State.

25. Wanzeler and Merrill have both admitted, under oath, that they run TelexFree's operations in the United States. During sworn testimony before the MSD in March 2014, both men confirmed their leadership positions at TelexFree and confirmed that each of them owns 50% of the company.

26. Based on an analysis of financial records, both men also paid themselves millions of dollars from the investor funds accumulated in TelexFree accounts. By the end of 2013, Merrill had transferred over \$3,000,000 from TelexFree accounts to his personal accounts. By that point Wanzeler – primarily through money transfers authorized by Merrill – had received over \$7,000,000.

27. It appears that TelexFree, Merrill, and Wanzeler are also intertwined with other entities, including Brazilian Help, Inc., Diskavontade, Ympactus (noted above), and TelexFree Financial. During his testimony before the MSD, Wanzeler described Ympactus as the Brazilian incarnation of TelexFree; both companies shared the web site www.telexfree.com, and Ympactus used the TelexFree brand name in Brazil.

28. The relationships among TelexFree, LLC; TelexFree, Inc.; and TelexFree Financial are equally interwoven. Wanzeler testified that TelexFree Financial was created to pay the employees of TelexFree LLC and TelexFree, Inc., because they “have so many problems with the bank.” As discussed further below, this appears to be a reference to U.S. banks repeatedly shuttering TelexFree accounts in 2012 and 2013 because of concerns that Merrill and Wanzeler (the signatories) were doing something illegal.

IV. TelexFree's U.S.-Based Business Operations

29. TelexFree maintains a website, www.telexfree.com. As further discussed below, TelexFree's VOIP product, usually called 99TelexFree, could be bought directly through the website access TelexFree provided to its promoters. Certain factors, however, distinguish TelexFree and its product from the operations of a legitimate company. For example:

- a. The product appears poorly designed for acquiring and keeping retail VOIP customers.
- b. The way TelexFree compensated those who signed up to "promote" the VOIP product had little or nothing to do with actually *selling* the VOIP product, and the compensation system was not based on a sustainable business model.
- c. An analysis of the bank and credit card processing accounts behind TelexFree's publicly-stated income and revenue figures shows that TelexFree was deriving less than 1% of its revenue from its VOIP products, about 99% from investments by new promoters, and that it could not meet its massive payment obligations to existing promoters without equally large infusions of cash from new promoters.
- d. TelexFree's public statements, including statements and instructions to its promoters, consistently omitted the fact that TelexFree's survival, and so promoters' profits, depended on a constant influx of new promoters, and not on selling the VOIP product.

A. The Product TelexFree Purported to Sell

30. The 99TelexFree product allows the user to make Internet-based long distance calls to foreign countries. It is downloaded by the purchaser and installed on a computer (or,

more recently, on a smartphone), after which the purchaser registers his phone number with TelexFree. The purchaser can then call a local access number from the registered phone number. When the TelexFree system recognizes a call by a registered phone number, the purchaser is alerted by a new dial tone and can then complete an international call.

31. The process for buying TelexFree's VOIP service is cumbersome. On April 9, 2014, an HSI agent acting in an undercover capacity ("UC2"),⁴ bought a TelexFree VOIP package from a promoter via the TelexFree website. The initial steps in the process took over two hours, including unusual steps like setting up an electronic "eWallet" and uploading to TelexFree copies of UC2's drivers license and credit card.

32. Beyond credit card sales, it appears that a customer could have bought the VOIP service by paying the \$49.90 monthly fee directly to a promoter, after which TelexFree subtracted that amount from what TelexFree owed the promoter in "buy back" fees or commissions (discussed below). There is no indication, however, that significant retail sales of TelexFree to genuine third party customers were accomplished in this manner. For example, the site itself allowed for the use of a credit card for payment, an especially likely option in scenarios, like this one, where ongoing monthly payments were needed if someone actually used the service. Individual persons who are promoters are unlikely to take credit cards.

**B. The Compensation Structure – Making Money
Without Selling Anything**

33. The TelexFree site, www.telexfree.com, explains how TelexFree compensates participants. TelexFree instructional videos, available on YouTube, also describe the numerous ways TelexFree pays its promoters. From approximately March 2012 to September 2012, the

⁴ The activities of the initial undercover agent working on this investigation are discussed below.

TelexFree site contained a “promoters” link that told potential promoters that they could, “Earn money doing announcements on Internet!” That is, the site told potential investors that, after an initial investment in the company, they could make money for a year without selling any of TelexFree’s VOIP services, simply by posting ads for the product. For example, in the summer of 2012 the website said, in part, the following:

Be our promoter
Earn money doing announcements on Internet!
Through a ADCENTRAL, that you geot [sic] for the amount of US\$299
(annually).

The promoter will receive US\$20 each week that makes 7 different announcements in websites of free announcements online, from Monday to Sunday. All in a way fast, easy, and standardized in your virtual office (BO) Telexfree.

This will be for the 52 weeks of the year, of your contract, then see the simulation:

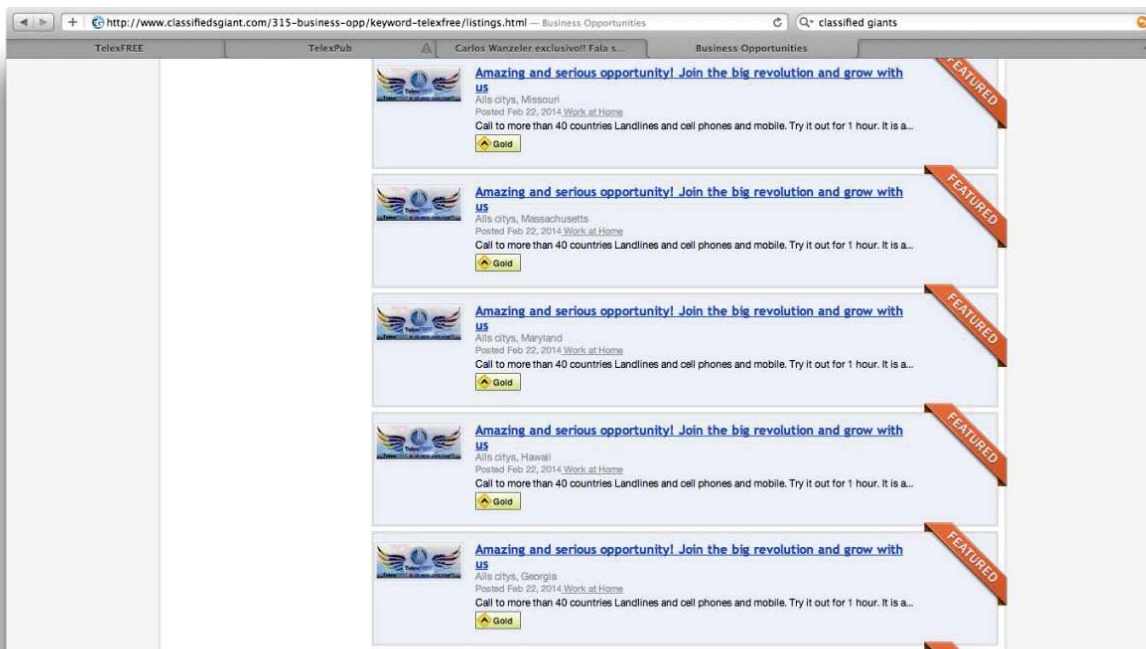
52 weeks x \$20 (Putting the 7 announcements) = \$ 1,040 in the year

34. The TelexFree site also had a link – next to a photograph of James Merrill – that read, “See our opportunity presented by our President James Merrill.” The link was connected to a downloadable PowerPoint presentation, described as “the opportunity of your lifetime.” The presentation encouraged people to sign up as promoters and “Earn money the smart way! Without having to invite anyone, without selling anything in the comfort of your own home.” It went on to explain that by placing one advertisement for TelexFree a day a promoter could earn \$20 per week, \$80 per month, \$1,040 per year, with \$741 in net profit per year. The presentation encouraged potential promoters to join under an “AdCentral Family Plan” (explained further below).

35. An analysis of the TelexFree site, made while the original compensation system was operating (about January 2012 to March 9, 2014), showed that when a promoter joined

TelexFree he was required to have a user name to access the “back office” area of the site. This was the area from which TelexFree promoters managed their sales activities. Once a promoter accessed the “back office,” he was able to copy advertisements already prepared by TelexFree, after which the promoter pasted those pre-made ads into various other websites that allowed free “classified” advertising. TelexFree provided the links to those sites; the promoter could post the ads to whichever of these sites he chose. After posting an ad, the promoter submitted a link to the advertisement’s internet protocol (“IP”) address to TelexFree, which then verified that the ad was placed.

36. Agents, on multiple dates, reviewed the approximately ten sites to which TelexFree directed its promoters to post advertisements. These sites, each of which allowed people to post small ads for free, bore hundreds of identical ads for TelexFree. A “screen shot” of a typical site, retrieved by HSI personnel, appears below:



37. Beyond the seeming futility of posting ads like those above, promoters were prohibited from posting TelexFree ads anywhere else. Moreover, according to Merrill's sworn testimony before the MSD, no promoter ever even asked the company for permission to do so.

C. The Compensation Structure – Individual Earnings

38. Overall, between in or about January 2012 and early March 2014, TelexFree's compensation structure was convoluted. As discussed below, there were two buy-in levels available and, after buying into the company, a new participant could be compensated as an individual, or as part of a "team," earning additional money by recruiting new promoters. As to the buy-in levels, the greater the investment by the promoter, the higher the return. Moreover, nothing prevented a single promoter from buying in multiple times.

39. The information below is based on a review of the TelexFree site; YouTube postings by TelexFree personnel and various promoters; and conversations between an HSI undercover agent and a successful TelexFree promoter (discussed further below).

1. *The \$289 Buy-In Level (AdCentral)*

40. All new promoters were required to first pay a \$50 membership fee. After paying the fee, TelexFree would set up a new "back office" site for that user. After paying this fee, the user then had the option of buying two different "AdCentral" packages, priced at \$289 and \$1,375.

41. At the \$289 buy-in level,⁵ the promoter was compensated *regardless* of whether there were any retail sales of the VOIP product. The company called this plan "AdCentral." As with the \$50 buy-in, TelexFree provided ads and free websites on which to post the ads.⁶

⁵ The cost of this buy-in level may have changed slightly over time.

42. In the AdCentral plan, the company gave the promoter access to a “stock” of ten VOIP products to sell that week, and then each week thereafter for 52 weeks. If an AdCentral promoter posted ads for seven consecutive days, the company agreed to “buy back” any unsold stock from the promoter for \$20, and to continue to do so every week for a year. This buyback happened even though the promoter paid no money to TelexFree for the stock in the first place.

43. In short, an investment of \$350 (the AdCentral promoter’s initial buy-in amount), resulted in an annual return of \$1,040 ($\20×52), without requiring the sale of a VOIP product, so long as the promoter posted advertisements on a site identified by TelexFree.

2. The \$1,375 Buy-In Level (AdCentral Family)

44. The higher buy-in level, which required an investment of \$1,375 (plus the initial \$50 fee described above),⁷ was called AdCentral Family. This level operated the same way as the AdCentral buy-in discussed above, but TelexFree gave the promoter a “stock” of 50 VOIP products (instead of 10), and instead of placing one ad per day the promoter had to place five ads per day. At the end of the seven day period, the company would then “buy back” the unsold stock from the AdCentral Family promoter for \$100, and continue to do so for the remaining 51 weeks.

45. If someone paid TelexFree to become an AdCentral Family promoter, and met the ad-posting requirements, TelexFree would pay that person an annual return of \$5,200, regardless of whether a VOIP product was soled

⁶ In the event of a retail sale based on one of those ads, the promoter received a 90% commission, that is, \$44.99 out of the \$49.99 the retail customer paid for the first month of TelexFree’s VOIP service. As in the \$50 buy-in, if that retail customer renewed on a monthly basis, that AdCentral promoter earned an additional 10% commission each time.

⁷ As above, this amount appears to have changed slightly over time.

D. The Compensation Structure – “Team” Earnings

46. People were incentivized to recruit other people, who would then recruit additional people, and so on, while no one level of participants needed to make genuine retail sales of the VOIP product to make money from TelexFree. To qualify for the various team-based income streams TelexFree made available, TelexFree required a promoter to make at least one retail sale of the 99TelexFree VOIP product.

1. *Compensation for Direct Recruitment*

47. The first method of team earnings came from the direct recruitment of new promoters. For each direct recruit who bought in at the AdCentral level (\$350), the recruiting promoter got a \$20 “fast start” bonus. For each direct recruit who bought in at the AdCentral family level (\$1,425 total), the bonus was \$100. To maximize compensation, promoters had to ensure that their direct recruits then developed their own recruits, which would result in additional compensation. Higher promoters could also profit from TelexFree “buying back” stock from promoters they had recruited. The original promoter would be paid for “buy backs” going six levels deep. Promoters would also profit from actual VOIP sales made by lower level promoters.

2. *“Team Builder” Bonuses*

48. TelexFree also provided “team builder bonus” compensation. To qualify for this compensation, a promoter must have made five retail sales of the 99TelexFree VOIP product, must have directly recruited 10 AdCentral Family promoters, and each of those recruits must have themselves also made five retail sales of 99TelexFree. The maximum bonus available as a team builder was \$39,600.

E. Corroborating Information from Undercover Activities

49. During the investigation, a law enforcement officer arranged to have him/herself recruited as a TelexFree promoter, to confirm how portions of the TelexFree system operated. On October 15, 2013, an undercover HSI task force officer (“UC”) met with a TelexFree promoter (“Person A”). During the conversation, Person A told the UC that the UC could make \$100 a week using an “AdCentral Family Package” to post online ads for TelexFree, and could earn additional money by recruiting other people to join TelexFree.

50. The UC met Person A again the next day, and successfully joined TelexFree as a new promoter. The UC bought the AdCentral Plan for \$1,425 (a \$50 membership fee plus \$1,375 for the AdCentral package), using a check made payable to Person A. Person B, an associate of Person A, helped the UC register and verify the UC’s new TelexFree “back office” account. This consisted of entering a name, date of birth, Social Security number, cellular telephone number, email address, and mailing/billing address. In order to access the back office, the UC created a unique log-in name and password.

51. Starting on October 21, 2013, using the UC’s access to the TelexFree system, an HSI Intelligence Research Specialist placed online advertisements as a promoter for TelexFree. Following the system discussed above, the Specialist copied advertisements created by TelexFree and made available to the Specialist in the back office area of TelexFree’s site, and pasted them to another website TelexFree recommended. As required under the AdCentral Family plan, the Specialist did this five times a day. The entire process took about 25 minutes per day.

52. Between October 21, 2013, and the date of this affidavit, the Specialist posted more than 700 advertisements. The ads have resulted in no retail sales of TelexFree’s VOIP

product. As described above, the sites on which these ads were posted contained page after page after page of hundreds of nearly identical ads placed by various TelexFree promoters for the identical VOIP service.

53. During a conversation with Person A on November 2, 2013, Person A told the UC that the UC did not need to sell TelexFree's VOIP product in order to make money, but could just post ads. Similarly, in a meeting on December 2, 2013, Person A told the UC that, since July 2012, he had earned \$1,600,000 as a TelexFree promoter, without selling a TelexFree product.

54. On December 6, 2013, the Specialist set up an "electronic wallet" (or "eWallet") through the TelexFree back office. On January 14, 2014, an undercover bank account was linked to the eWallet and, after that date, the account received payments from TelexFree for the posting of advertisements.

F. TelexFree's Revenue Derived Almost Entirely from Money Invested by New Promoters

55. Among the documents the government has reviewed are profit and loss statements and balance sheets for both TelexFree, Inc., and TelexFree LLC, which TelexFree provided to the MSD. The government has also reviewed financial information TelexFree submitted to various state regulatory agencies, including Idaho, Washington, and Tennessee. There are various inconsistencies among these submissions.

56. For example, in April 2013, a lawyer for TelexFree, Inc., and TelexFree LLC submitted to MSD a 2012 profit and loss statement for TelexFree, Inc., followed by another version in February 2014. The figures on the two statements substantially differ. The statement submitted in April 2013 listed about \$1,800,000 in total income for TelexFree, Inc., in 2012,

while the February 2014 statement listed \$2,800,000. As another example, the first profit and loss statement listed “agent commissions” as \$520,582.95, while the second said \$2,105,925.61.

57. Moreover, the 2013 profit and loss statements and balance sheets for TelexFree Inc. and TelexFree LLC, as submitted to MSD in February 2014, reported massive income and other figures for TelexFree:

Description	TelexFree LLC	TelexFree Inc.	Combined
Income – Paid through Bank	\$119,468,920.12	\$56,195,790.54	\$175,664,710.66
Income – Paid through System	<u>\$572,240,960.21</u>	<u>\$268,930,757.53</u>	<u>\$841,171,717.74</u>
Total Income	\$691,709,880.33	\$325,126,548.07	\$1,016,836,428.40
Total Cost of Goods Sold	\$2,263,476.65	\$397,736.51	\$2,661,213.16
Agent Commissions – Paid through Bank	\$50,670,290.64	\$20,666,027.60	\$71,336,318.24
Agent Commissions – Paid through System	\$571,917,743.23	\$268,930,757.53	\$840,848,500.76
Total Agent Commissions	\$622,588,033.87	\$289,596,785.13	\$912,184,819.00

58. The “System” referred to in the chart above was TelexFree’s computerized “back office” system. Within that system, promoters could accumulate credits owed to them by TelexFree and perform other transactions. Merrill, Wanzeler, and others working at TelexFree had access to the system.⁸

1. *Incoming Funds to TelexFree Bank Accounts*

59. TelexFree took in funds from two sources: fees people paid to become TelexFree promoters and sales of the company’s 99TelexFree VOIP service, which has been sold for \$49.90 per month since at least 2012. As noted above, in the financial statements TelexFree

⁸ The Profit and Loss statement for TelexFree LLC reflects additional income of \$174,183,644.66 from Ympactus, TelexFree’s operation in Brazil, which is not reflected here.

submitted to the MSD and other regulatory authorities, it reported income as either “paid through banks” or “paid through system.”

60. In the government’s investigation thus far, agents reviewed bank account, credit card merchant, and other third-party records in an effort to determine the volume of sales of the VOIP product. The investigation to date has identified and obtained records of approximately 14 bank accounts opened and operated in the United States in the name of TelexFree Inc. or TelexFree LLC since February 2012 (not all operating at the same time). For each of these accounts, the signatories were Wanzeler and Merrill or, for many of the significant TelexFree accounts, just Merrill.

61. TelexFree used so many accounts in a roughly two year period because U.S. banks, following their protocols for deterring money laundering or other financial misconduct, repeatedly shut them down and forced Merrill and Wanzeler to transfer the funds elsewhere. After initially operating out of Bank of America in or about February 2012, Merrill and Wanzeler later opened accounts at TD Bank, Citizens Bank, Fidelity Co-op Bank, and Middlesex Savings Bank – each of which ultimately terminated their banking relationships with Telexfree.

62. During the government’s review of the TelexFree bank accounts agents have identified, a general pattern emerged. The vast majority of the thousands of deposits to these accounts appear to be buy-in fees for TelexFree promoters. But of the thousands of cash, check, wire transfer, or money order deposits into the TelexFree accounts – totaling tens of millions of dollars in 2013 – only 19 appear to be for the purchase of TelexFree’s VOIP service. For example:

- a. A review of Bank of America account XXXXXXXX7408 opened in the name of TelexFree, Inc., in February 2012 revealed that between June 2012 and

May 2013, the accounts received 1,133 deposits, totaling \$12,203,496.48.

Between September 2012 and May 2013 there were 813 deposits in the exact amount of an AdCentral Family buy-in (\$1,425 or \$1,375) totaling \$1,142,625.

During that same period there were nine deposits in the amount of \$49.90 – the VOIP purchase price.

b. Similarly, in September 2012 accounts were opened at TD Bank in the name of TelexFree Inc. and TelexFree LLC. In account #XXXXXXX8409, in the name of TelexFree LLC, between October 9, 2013, and January 17, 2014, there were 478 incoming wires ranging from \$309 to \$142,500, totaling \$2,638,712. Of the deposits, there were 2,474 in the amount of \$1,425, totaling \$3,525,450. Deposits were made in multiple states along the eastern coast of the United States. During that same period there was one deposit for \$49.90.

c. As to account #XXXXXXX2808 at TD Bank, in the name of TelexFree LLC, between September 2012 and July 2013, there were 1,550 deposits by cash, check, money order or wire transfer in the exact amount of \$1,425 (again, the AdCentral buy in price). During that same period there was one deposit for \$49.90 (VOIP purchase price).

d. As to account #XXXXXXX334 at TD Bank, in the name of TelexFree LLC, between June and October 2013 there were 1800 deposits in the amount of \$1,425. There was one deposit of \$49.90.

2. Incoming Funds Paid Through Credit Card Processing Services

63. TelexFree also employs credit card processors to process payments to TelexFree's website, creating another potential avenue for customers to pay for VOIP service (as mentioned

above, the site allows customers to use a credit card to pay for 99TelexFree). As with the banks used by Telexfree, the entities processing TelexFree promoter and customer payments, including PayPal, ProPay, Inc., and Global Payroll Gateway, Inc.,⁹ terminated their relationships with Telexfree. On behalf of TelexFree, when dealing with these processing services Merrill and Wanzeler also minimized, or simply failed to note, that TelexFree was the subject of enforcement activity in Brazil.

64. A review of the EFT deposits and payouts from the TelexFree accounts indicates credit card processors have made large deposits to TelexFree accounts, as has PayPal. Based on an analysis of the accounts, ProPay Inc., a credit card processor, processed credit card transactions for TelexFree from September 2012 to June 2013. Global Payroll Gateway, Inc., another such processor, processed credit card transactions for TelexFree from June 2013 to September 2013, and I-Payout has recorded and tracked credit card payments processed through three other credit card processors since October 2013.

65. A review of the credit card processor records further confirms that while TelexFree in fact sold some 99TelexFree VOIP packages, the overwhelming percentage of incoming revenue was from new people investing in TelexFree to become promoters. For example,

- a. Agents reviewed business records from ProPay, Inc. In 2013, ProPay processed 32,471 credit card sales (net of refunds and chargebacks) for TelexFree, totaling \$29,150,021.19. ProPay also processed 6,098 credit card sale transactions (net of refunds and chargebacks) in the amount of \$49.90 – the price of TelexFree’s VOIP product. These sales totaled only \$304,283.74.

⁹ Global Payroll Gateway partnered with a processing service called Phoenix Payments.

b. Agents also reviewed business records received from Global Payroll Gateway (“GPG”). Between June 2013 and September 2013, GPG/Phoenix Payments processed total sales of \$37,419,522.69 for TelexFree. Based on the records and additional information provided by GPG, GPG processed 49,656 credit card transactions for TelexFree between June 12, 2013, and September 4, 2013. Of those transactions, 7,362 (approximately 15%) were for less than \$50 and, assuming every one of these transactions were to buy the VOIP product (which is unlikely), the sales revenue attributable to VOIP sales in this period was \$367,363.80, or about 1% of total sales processed by GPG, a ratio similar to ProPay above.¹⁰

c. Agents also reviewed records provided by i-Payout, a payment processing company that disbursed funds for TelexFree and provided record-keeping services for certain credit card payments made by promoters for buy-ins, and by purchasers of the VOIP product. The records show that in 2013 i-Payout recorded 52,562 payments to TelexFree totaling \$66,036,927.99. Of these, there were 2,153 invoices for \$49.90 (the monthly VOIP cost), totaling \$107,434.70, or less than .2%.

66. I note that in its written response to questions from the MSD, with a signed verification by Wanzeler, TelexFree reported that in 2012 and 2013 it sold 4,845,576 VOIP packages to people outside TelexFree’s distribution network (meaning, not promoters, but actual arms-length customers) and that these sales amounted to \$238,395,353. The government has not uncovered documentation supporting this figure. In total, in our review of TelexFree’s bank

¹⁰ There were also 31,129 credit card transactions in excess of \$1,000.

account and credit card merchant account activity for the period January through December 2013, we identified approximately 15,630 payments to TelexFree, totaling only \$779,930.54, for monthly purchases of the 99TelexFree VOIP product. Based on TelexFree's reported sales of \$1.016 billion, known sales of the 99TelexFree VOIP product represented a tiny fraction of TelexFree's total revenues.

3. *Outgoing Funds from TelexFree Accounts*

67. Just as sales of the VOIP product represented a fraction of TelexFree's revenue, the rest coming from new investors, the overwhelming majority of disbursements by TelexFree were to pay monies owed to existing promoters.

68. First, a review of funds disbursed from TelexFree's bank accounts showed that some funds have been paid to vendors that appear to support the necessary infrastructure for the 99TelexFree VOIP system. For example, payments, totaling about \$4,000,000, were identified going to iBasis, IDT Telecom, Liga Telecom, Exigo Office, Access Northeast (Xand), and Amazon Web Services. We also isolated other payments to law firms and consulting firms specializing in the "multi-level marketing" industry.

69. In the financial statements furnished by TelexFree to the MSD, the company reported for 2013 Cost of Goods Sold for TelexFree, Inc., and TelexFree LLC as \$2,263,476.65 and \$397,736.51, respectively, totaling \$2,661,213.16. These costs of goods sold are described in the financial statements as Direct Inbound Dial & Access Numbers, Telecomm & Database Network Expense, and Termination.

70. In this same period, in which the government has identified only \$779,930.54 from sales of the 99TelexFree VOIP product, TelexFree's submission to the MSD reflects commissions paid to agents, either directly or indirectly ("through the system"), of over

\$912,000,000, indicating that outgoing commissions were funded primarily with money invested by new promoters.

71. As a representative example, Citizens Bank account XXXXXX8206 was opened in Massachusetts on February 5, 2013, in the name of Telexfree LLC, with Merrill and Wanzeler as the authorized signers. A review of wire transfer data from that account showed that between February 21, 2013, and August 6, 2013, 7,340 wire transfers were made. Of those, 38 wire transfers, totaling \$808,301.34, were made to entities such as iBasis, telecom companies, and electronic storage providers. The remaining 7,302 wire transfers – totaling \$11,272,627.04 – were made to individual persons, in amounts ranging from \$270.00 to \$116,650. Moreover, 1,023 of the wires to individuals were in the exact amount of \$272.00, which, as explained in the “back office” portion of Telexfree’s site, appears to be the minimum transfer amount TelexFree will send to promoters (\$300, less transfer fees).

4. *TelexFree’s Financial Activities Involved the Substantial Use of Interstate Wires*

72. As discussed above, TelexFree received thousands of deposits directly to its bank accounts and also through credit card processors who, after receiving payments from card users, transferred those payments in batches to TelexFree accounts. These automated clearing house (“ACH”) credit transactions were transmitted via wire communications in interstate commerce.

73. As an example, on July 5, 2013, GPG recorded 176 sales transactions for TelexFree totaling \$214,700.80. On July 8, 2013, the proceeds from these sales transactions were credited to Telexfree’s Citizens Bank account, no. XXXXXX9078, through an ACH credit transaction originating at Phoenix Payments in Tempe, Arizona, and terminating in the bank account of Telexfree at Citizens Bank in Massachusetts. Other similar batch wirings included the following:

<u>Date</u>	<u>No. Sales</u>	<u>Total Sales</u>	<u>Deposit Date</u>	<u>Deposit Amount</u>
06/28/13	332	\$292,330.40	06/24/13	\$292,330.40
07/24/13	711	\$604,251.00	07/25/13	\$604,251.00
07/30/13	606	\$553,390.70	07/31/13	\$553,390.70
08/01/13	722	\$715,301.00	08/02/13	\$715,301.00

74. In July 2013, GPG processed 13,649 sales transactions, in 33 batches over 22 days, which netted a total of \$11,707,498.30, an amount that was credited, in 33 ACH transactions, to Telexfree's Citizens Bank account.

75. In 2012 and 2013, there were thousands of payments, by bank-to-bank or wire transfer out of TelexFree's accounts in Massachusetts to the accounts of TelexFree promoters elsewhere. Based on my training and experience, I know that Citizens Bank's servers for processing banking transactions are in Rhode Island.

V. TelexFree's Misleading Public Statements about the Company's Operations

76. TelexFree periodically hosted conferences (as did successful promoters) to generate excitement for TelexFree. On March 9, 2014, members of HSI, some in an undercover capacity, attended the TelexFree "New Compensation Plan" Conference at the Marriott Copley Place Hotel, 110 Huntington Avenue, Boston, Massachusetts. During this and other conferences, Merrill, Wanzeler and the other speakers gave the impression that TelexFree's VOIP product was groundbreaking, selling well, and that those sales were the primary mission of the company.

77. During these events, and during similar YouTube appearances and conference calls, senior TelexFree personnel assured promoters that it would not affect TelexFree in the United States. They did not note that TelexFree's U.S. operations were extremely similar to TelexFree's activities in Brazil.

78. Merrill and Wanzeler spoke at the Boston conference, along with other TelexFree personnel and successful promoters. Several people, including a TelexFree marketing executive and the head of "IT," touted the quality of TelexFree's VOIP product, its planned expansion, and

the opportunity to “market” it. During Merrill’s remarks, he said, among other things, “We can help people communicate with their friends and family overseas, for less”; “You are going to create communities of app users, each agent in here”; “You’re gonna get paid”; “We are here to help you make money.”

79. Similarly, Wanzeler said, among other things, “TelexFree was built to change people’s lives, save money for people [to] call [from] anywhere in the world to anywhere in the world”; “For over 20 years, I work in telecommunication. I was agent like you guys for big company in California. I learned the industry. I learned the product. We put our own infrastructure, okay? We changed what we done in the past 20 years and built something nobody else have. I can sit here today, please, if I’m lying here you can tell me, what company can give the opportunity for the people to call cell phone, landline, over 40 countries.”

80. Wanzeler continued, “We have a product and service no one else have; none of them. What company here in the U.S. can give you guys the opportunity have mobile, call from mobile phone to over 40 countries unlimited? ATT do that? Sprint? T-Mobile? Anyone do that? 40 countries? Cell and landline? Anybody? Yes? No? TelexFree only.” Wanzeler also said, in the preceding month, “Over 600,000 customers paid \$49.90 to TelexFree99.”

81. Similarly, during the conference TelexFree’s chief executive officer told the crowd, “We are here to build a long term sustainable business”; “We need your commitment to protect this opportunity for you and your families”; and “A long term sustainable business that can help your friends and family for years and years to come.” Another TelexFree employee told the audience, “We just heard an incredible number: 580,000 retail customers [for TelexFree’s VOIP product] in February.”

82. Neither Merrill, Wanzeler, nor any other TelexFree executive mentioned that the company actually generated a only a fraction of its revenue from selling TelexFree's VOIP product, and instead depended on generating revenue from new promoters that could be used to cover TelexFree's payment obligations to existing promoters. According to TelexFree's finances, the company was not profiting from TelexFree's promoters selling more VOIP products, but instead from the continuous flow of new promoters.


83. Moreover, based on extensive review of TelexFree's banking activity, credit card activity, and portions of its back office data, Wanzeler's statement to the crowd that TelexFree had brought in "over 600,000 customers paying \$49.90" in or about February 2014 was false. In their testimony to the MSD, both Wanzeler and Merrill re-affirmed that 580,000 people bought VOIP packages in February 2014, and Wanzeler "guaranteed" that most of those people were "outside" retail customers. But 580,000 customers each paying \$49.90 would have generated \$28,942,000 in revenue from VOIP sales, and thousands of \$49.90 entries in TelexFree's bank and credit card processing records. That revenue does not appear in TelexFree's bank and credit card processing records in that time frame. As to "back office" activity, that would involve promoters, or people recruited by promoters, buying the product, and such persons would not appear to be legitimate "outside" customers.

Conclusion


84. I submit that the facts in this affidavit establish probable cause to believe that between in or about January 2012 and March 2014, Carlos Wanzeler and James Merrill knowingly conspired with each other and others known and unknown to commit wire fraud, that is, having devised, and intending to devise, a scheme and artifice to defraud, and to obtain money and property by means of material false and fraudulent pretenses, representations and promises,

caused writings, signs, signals, pictures and sounds to be transmitted by means of wire communication, in interstate commerce, for the purpose of executing that scheme and artifice, in violation of 18 U.S.C. § 1343, all in violation of 18 U.S.C. § 1349.

85. Having signed this affidavit under oath as to all assertions and allegations contained herein, its contents are true and correct to the best of my knowledge, information and belief.


JOHN S. SOARES
Special Agent
Homeland Security Investigations

Sworn and subscribed to before me this 9th day of May 2014, at Worcester, Massachusetts.


HON. DAVID H. HENNESSY
UNITED STATES MAGISTRATE JUDGE
DISTRICT OF MASSACHUSETTS



Exhibit

2

EXHIBIT A

)	
In Re:)	
)	Chapter 11
)	
TELEXFREE, LLC ,)	Case No. 14-40987-MSH
TELEXFREE, INC.,)	Case No. 14-40988-MSH
TELEXFREE FINANCIAL, INC.,)	Case No. 14-40989-MSH
)	
Debtors.)	Jointly Administered
)	

I, Stephen B. Darr, hereby submit the following affidavit in support of the *Motion by Chapter 11 Trustee for Entry of Order Finding that Debtors Engaged in Ponzi and Pyramid Scheme and Related Relief* (the “Ponzi Motion”).

1. I am the duly appointed Chapter 11 trustee (the “Trustee”) in these cases, having been appointed by order of the Court dated June 6, 2014.

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3. The statements provided herein are based upon information and knowledge I have derived through my involvement in these Chapter 11 cases, as further set forth herein.

4. During the course of my investigative duties in these cases, my colleagues and I have examined the Debtors' books and records that were seized from the Debtors by federal authorities, electronic copies of which were provided to me, as well as documents produced by third parties in response to numerous motions for Federal Rule of Bankruptcy Procedure 2004 examinations. I and my professionals have conducted interviews of the Debtors' former employees and consultants, as well as professionals retained by the Debtors during the Chapter 11 cases. I have also reviewed the docket in these cases.

I. CASE BACKGROUND AND PROCEDURAL POSTURE

5. On April 13, 2014 (the "Petition Date"), each of TelexFree, Inc., TelexFree, LLC, and TelexFree Financial, Inc. (collectively, the "Debtors") filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code ("Bankruptcy Code") with the United States Bankruptcy Court for the District of Nevada ("the Nevada Bankruptcy Court").

6. The Debtors initially operated as debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

7. On the Petition Date, the Debtors filed a motion for joint administration of the cases, with TelexFree, LLC designated as the lead case. By order dated April 24, 2014, the order for joint administration was approved.

8. Prior to the filings, the Commonwealth of Massachusetts, Office of Secretary of State, Securities Division ("MSD") commenced an investigation into the Debtors' business practices.

9. On or about April 15, 2014, the MSD commenced an administrative proceeding against the Debtors. Also on April 15, 2014, the Securities and Exchange Commission (“SEC”) commenced an action against the Debtors and others in the United States District Court for the District of Massachusetts. The foregoing actions alleged, among other things, that the Debtors were engaged in an illegal Ponzi/pyramid scheme and the fraudulent and unregistered offering of securities. Substantially contemporaneously with the commencement of the SEC action, Homeland Securities Investigation (“HSI”) seized the Debtors’ assets, books, and records. In connection therewith, the federal government seized more than \$107,000,000 in cash, including checks payable to the Debtors, their principals, or their affiliates. Federal authorities have also made forfeiture claims against approximately forty (40) other items of real and personal property standing in the name of the Debtors’ principals and their affiliates, including automobiles, real properties, and notes secured by mortgages on real properties.

10. On or about April 22, 2014, the Office of the United States Trustee filed a motion for the appointment of a Chapter 11 Trustee based upon the allegations of illegal activity.

11. On April 23, 2014, the SEC filed a motion to transfer venue of the cases to the United States Bankruptcy Court for the District of Massachusetts (the “Court”). By order dated May 6, 2014, the motion to change venue was approved. The cases were transferred to the Court on May 9, 2014.

12. On May 30, 2014, this Court allowed the United States Trustee’s motion to appoint a Chapter 11 trustee, and I was appointed on June 6, 2014.

13. The Debtors filed only a list of the alleged thirty (30) largest creditors in the cases and did not file schedules or statements of financial affairs, nor a matrix of creditors.

14. On February 27, 2015, I filed schedules of assets and liabilities and statements of financial affairs for each of the Debtors, using information obtained from documents produced pursuant to Rule 2004 examinations and Debtor records provided by the Federal Authorities (as defined below).

15. Carlos Wanzeler and James Merrill were the Debtors' principals along with Carlos Costa, at least through his alleged separation with the Debtors in the fall of 2013. Shortly after the Trustee was appointed, the United States Department of Justice ("DOJ" and, together with the SEC and HSI, the "Federal Authorities") indicted Wanzeler and Merrill based upon their involvement in the Debtors' scheme. Wanzeler has fled the country and, upon information and belief, is in Brazil. Merrill was initially detained and has been released pending trial.

16. On February 3, 2015, I submitted a comprehensive Status Report on outstanding matters in the cases. The Status Report set forth, among other things, the background of the Debtors and their affiliates, the breadth and scope of the scheme, assets recovered to date and potential additional sources of recovery, as well as efforts at coordination with governmental authorities, both in the United States and in Brazil.

17. Prior to my appointment, the Federal Authorities shut down, disconnected, and seized the Debtors' computer system, which consisted of forty-six (46) computers and servers containing more than twenty (20) terabytes of data. Accordingly, at the time of my appointment, I did not have access to any of the Debtors' records. Neither of the Debtors' principals has been available because Wanzeler fled the country and Merrill had been indicted and detained. I have had only had limited access to the Debtors' former employees.

18. Initially without access to the Debtors' books and records, I have utilized a variety of resources to acquire information regarding the Debtors' activities and the mechanics of their scheme.

19. I directed counsel to file motions for authority to obtain documents from, and conduct examinations of, twenty-nine (29) separate entities pursuant to Federal Rule of Bankruptcy Procedure 2004 (the "2004 Motions").¹ The deponents of the 2004 Motions included prepetition and postpetition professionals retained by the Debtors, financial institutions who had prepetition and/or postpetition relationships with the Debtors, multiple firms who provided payment processing services to facilitate payments between the Debtors and Participants, and firms who provided consulting services to the Debtors or who otherwise were believed to have had business relationships with the Debtors.

20. I have also conducted or supervised informal interviews of certain former employees and consultants of the Debtors as well as several Participants.

A. Mechanics of Scheme and Methods of Compensation

21. The Debtors purported to be in the business of selling a voice over internet service, or "VoIP" that cost \$49.90 per month to conduct international phone calls. The sale of VoIP on a monthly basis is hereinafter referred to as a "VoIP Package". Customers who purchased the VoIP Package registered their phone numbers with the Debtors and received software that enabled their computers to place phone calls through the Debtors' computer servers in Marlborough, Massachusetts to approximately 40 countries.

22. The Debtors ostensibly used a multi-level marketing plan, or "MLMP", to sell the VoIP Packages.

¹ To date, I have deferred conducting depositions of the 2004 Motion deponents, as the focus has been on retrieving and examining documents and conducting informal interviews.

23. Until they purported to change their MLMP in March 2014, the Debtors provided Participants with two options to become members and to thereby open User Accounts:

- a. “AdCentral Plan”: \$339 for a one-year contract (\$50 membership fee plus \$289 contract fee). This contract entitled the User Account holder with the right to sell ten VoIP Packages, as to which a Participant could receive a commission if the packages were sold, although there was no sale requirement. Participants were required to place one internet ad per day and, for each week in which the Participant placed the required ads, he/she was entitled to one additional VoIP Package, which could be sold or exchanged for \$20 in credits with the Debtors. Thus, Participants who posted the required ads were eligible to receive \$20 per week for 52 weeks, for a total return of \$1,040 (a return of 207% on the investment of \$339).
- b. “AdCentral Family Plan”: \$1,425 for a one-year contract (\$50 membership fee plus \$1,375 contract fee). This contract entitled the User Account holder with the right to sell fifty VoIP Packages, as to which a Participant could receive a commission if the packages were sold, although there was no sale requirement. Participants were required to place five internet ads per day and, for each week in which the Participant placed the required ads, he/she was entitled to five additional VoIP Packages, which could be sold or exchanged for \$100 in credits with the Debtors. Thus, the Participants who posted the required ads were eligible to receive \$100 per week for 52 weeks, for a total return of \$5,200 (a return of 265% on the investment of \$1,425).

24. In addition to credits for posting these advertisements, the Debtors issued credits to Participants for the sale of membership plans and the establishment of new User Accounts as follows:

- a. \$20 in credits for each new Ad Central Plan and \$100 in credits for each new AdCentral Family Plan in a Participant’s network.
- b. \$20 in credits for each User Account in one’s “network,” up to a maximum of \$440, as long as there were two subsidiary User Accounts.
- c. 2% of all payments to each User Account within one’s network, down to six “levels” of the network, provided that each User Account had a registered VoIP customer.
- d. 2% of the Debtors’ net monthly billing, up to a maximum of \$39,600 in credits, for an AdCentral Family Plan that had ten new AdCentral Family

Plans in its network, so long as each plan had five registered VoIP customers.

25. The Debtors also issued credits to Participants for the sale of VoIP Packages as follows:

- a. 90% (or \$44.90 in credits) for the initial sale of a VoIP Package at \$49.90.
- b. 10% (or \$4.99 in credits) per month for the renewal of a VOIP Package by a User Account holder directly in one's network² and 2% (or \$0.99 in credits) per month for the renewal of a VOIP Package by a User Account holder indirectly in one's network, down to six levels of the network.
- c. 2% from all VoIP Package sales in one's network, down to six levels of the network.

26. The credits issued to Participants for placing advertisements and selling membership plans and VoIP Packages could be redeemed for cash, transferred to another User Account, or applied in satisfaction of an invoice for another User Account.

27. Invoices for the purchase of a membership plan could be satisfied in one of two ways. Participants could pay the invoice in cash directly to the Debtors or Participants could pay a recruiting Participant for the purchase of a membership plan through the recruiting Participant's redemption of credits in an existing User Account.

28. In the case of a Participant satisfying his/her own invoice directly by payment in cash to the Debtors, the process worked, generally, as follows:

- a. The Participant joined the Debtors' organization and created an online account with the assistance of a recruiting Participant, who needed to be identified;
- b. The Debtors' database recorded the details entered by the new Participant and assigned an identification number to the new User Account;
- c. The Debtors recorded the purchase, issued an invoice number, and marked the invoice as 'pending';

² In practice, the Debtors appear to have provided Participants with credits equal to ninety percent (90%) of the renewal fees.

- d. A Participant could pay money directly to the Debtors in the form of cash, check, cashier's check, or wire transfer, or through a third-party online payment processing account. Once the Participant paid the invoice, the Debtors updated the invoice as 'paid', and the account setup would be complete;
- e. The new Participant could then start building a pyramid underneath the newly created User Account by recruiting other Participants (or by purchasing new User Accounts themselves) and generating bonuses and commissions in accordance with the scheme.

29. Alternatively, as described below, a Participant could satisfy his/her own invoice directly by payment in cash to another Participant, who would satisfy the invoice by a redemption of accumulated credits. Thus, the new Participant's membership fee was paid directly to the recruiting Participant, rather than to the Debtors.

30. There are 10,987,617 User Accounts associated with the Debtors' MLMP. A new User Account was generally established each time that a membership plan was purchased, with either cash or accumulated credits.

31. Although some versions of Participant contracts contained prohibitions against Participants opening multiple User Accounts, other plan descriptions did not. In any case, any such restriction was not enforced and could not be enforced since the Debtors did not verify the Participants' identities. The Debtors' MLMP structure created incentives for Participants to open multiple User Accounts to generate commissions for themselves.

32. As noted above, a Participant could monetize accumulated credits by recruiting a new Participant to join the Debtors' scheme and using his/her accumulated credits to satisfy the invoice for the new Participant's membership plan in exchange for payment of the membership fee from the new Participant (a "Triangular Transaction"). In a Triangular Transaction, the Debtors issued the membership invoice to the recruited Participant, the recruited Participant paid

the membership invoice that was due to the Debtors instead to the recruiting Participant, and the Debtors redeemed the credits of the recruiting Participant in satisfaction of the invoice.

33. In a Triangular Transaction, the process generally worked in the same manner outlined above except that:

- a. The new Participant paid the invoice amount to the recruiting Participant (in those cases where there were two separate Participants involved, that is, not an intra-Participant transaction) and forwarded the initial invoice to the recruiting Participant; and
- b. The recruiting Participant, in turn, satisfied the initial invoice with accumulated credits in his/her existing User Account.

34. In fact, it was a regular practice of the Debtors' scheme for membership fees to be paid by the use of accumulated credits rather than by cash.

35. While invoices associated with the sale of membership plans or VoIP Packages had a face value of \$3,073,471,326, only \$359,792,242, or approximately twelve percent (11.7%) of that amount, was paid in cash to the Debtors. The balance of these invoices, totaling \$2,713,679,084, was satisfied by the use of Participants' credits.

36. The Debtors also issued "manual credits" to certain User Accounts in some instances. Manual credits were credits issued to User Accounts unrelated to the purchase of a membership plan and not resulting from the placement of advertisements or other components of the compensation scheme. Although some manual credits may have been issued to User Accounts in exchange for cash payment to the Debtors, a significant amount of manual credits appear to have been issued to certain User Accounts without any payment to the Debtors. There also were exchanges of credits between User Accounts unassociated with the issuance and satisfaction of Debtor invoices.

B. SIG/Back Office

37. The Debtors maintained two computer applications for accessing and processing information from the Debtors' database relating to User Account activity, referred to as "SIG" and the "Back Office".³

38. SIG stands for Sistemas de Informacoes Gerenciais, which is Portuguese and translates roughly to "Information Management System." SIG tracked the activity for Participants by User Account, and the User Accounts are the only records available to confirm Participant activity.

39. Access to SIG was the culmination of a painstaking data recovery and analysis project implemented with the assistance of my professionals and investigators from HSI.

40. Following my appointment and beginning in August 2014, HSI provided copies of electronic information contained in the Debtors' computers and servers. Once all of the data from the Debtors' computers and servers were obtained, I and my team reassembled the system following a multiple step process.

41. The first step involved identification of a key server that appeared to contain much of the Debtors' 'big data'. Extensive testing was then performed to determine the appropriate configurations of the data and to restore the data in a virtual machine environment. Once the physical configuration of the hard drives was determined, the servers were 'virtualized', which was necessary because the Federal Authorities were in possession of the original servers. Additional servers were later identified that were necessary to operate the network. Once the key components of the system were identified and operating, passwords were obtained through research into document productions received, communications with Federal

³ The Back Office was the program used by Participants to obtain information on their User Account activity.

Authorities, and a variety of investigative tools. Finally, an intensive analysis was performed to better understand the database structure, table relationships, data fields, and process flow.

42. Once access to a working version of SIG was obtained, I and my professionals were able to conduct search queries and sort data. Because SIG was complicated, written in more than one language, and poorly maintained, and system documentation was unavailable, substantial additional hurdles remained to achieving an understanding of the system and extracting usable data.

43. The Debtors' database was developed by programmers in Brazil and all field references are in Portuguese. System modifications appear to have been done in a haphazard and disorganized fashion. The Debtors' system is permeated with unreliable data because of limited efforts at data validation in establishing User Accounts.

44. Despite all of these obstacles, as a result of the forensic efforts identified above, I and my team have been able to reconstruct the Debtors' computer system in a virtual environment and obtain a working understanding of SIG and how it was used to track User Account activity.

45. Each time that a Participant purchased a membership plan or VoIP Package, an account was established with SIG (the "User Account").

46. Each User Account with the Debtors was registered with an electronic mail address ("Email Address"). There are approximately 900,000 unique Participant Email Addresses in SIG associated with 10,987,617 User Accounts. The number of User Accounts associated with an Email Address varies widely. A particular Email Address may be associated with a single User Account or may be associated with hundreds or thousands of User Accounts. Because each User Account may represent a separate Participant and some Participants entered

the scheme using the Email Address of another Participant, the number of Participants is unknown but is likely to be well in excess of 1,000,000.

47. After a User Account was established, SIG tracked the activity of the Participant in that User Account, including the accumulation of credits for bonuses and commissions ‘earned’, the use or transfer of credits between User Accounts, and payments made to or from the Participant directly with the Debtors.

48. SIG contains more than 100 tables of data. These tables include an Account Table (which contains a unique record for each User Account), an Invoice Table (which contains a unique record of each invoice generated by the Debtors), a Transfer Table (which contains information about each transfer of credits within the TelexFree system, including withdrawals of funds), and a Bonus Table (which contains information about each increase in credits into a User Account).

49. I and my advisors have taken a series of steps to confirm the accuracy and reliability of the transaction data reflected in SIG. My advisors interviewed the Debtors’ bookkeeper, Andrea Cabral, to understand the mechanics of SIG and how it was employed on a day to day basis. Limited testing was performed to reconcile balances and activity using available data, including cross-referencing data in related transactions, conducting interviews with several Participants to confirm the accuracy of the SIG data as to their User Accounts, and reconciling payment data with third party processor records. Based on the testing performed to date, SIG provides accurate information regarding membership plan sales, issuance of invoices, accumulation and use of credits, and amounts received from and disbursed to the User Accounts.

C. Relationship with Ympactus, and Segregation of Ympactus Information and Debtor Information

50. In February 2012, Ympactus commenced operations in Brazil and reportedly operated a scheme substantially identical to the scheme that is described above. The Debtors commenced operations in April 2012. Ympactus initially grew much more rapidly than the Debtors, with growth accelerating in the fall of 2012 through the early summer of 2013. By the spring of 2013, Ympactus had cash receipts of more than \$100,000,000 per month. *See Exhibit “I”*. On the other hand, the Debtors’ cash receipts were initially much more modest. In the spring of 2013, the Debtors’ cash receipts averaged approximately \$6,400,000 per month. *See Exhibit “I”*.

51. On June 28, 2013, the Public Prosecutor’s Office of the State of Acre, Brazil filed claims against Ympactus, Carlos Wanzeler, Lyvia Mara Campista Wanzeler, and James Merrill, alleging that the VoIP Packages marketed in Brazil were violating consumer rights, since the MLMP constituted a Ponzi/pyramid scheme. The Brazilian authorities suspended the operations of Ympactus and froze its assets in Brazil. Upon information and belief, the Brazilian authorities seized as much as \$300,000,000 from Ympactus in connection with the shutdown, and civil and criminal proceedings are pending in Brazil. On or about September 21, 2015, the Brazilian court entered a decision finding that Ympactus operated a pyramid scheme.

52. Following the shutdown of Ympactus, the Debtors’ cash receipts increased dramatically. The Debtors’ cash receipts totaled approximately \$198,500,000 in the last three full months of operation, with more than \$96,600,000 in cash receipts in February 2014 alone. *See Exhibit “I”*.

53. The SIG system maintained by the Debtors and Ympactus ran off a single database reflecting User Account activity for both operations. After reconstructing the computer

network and developing a working understanding of SIG, one of the first tasks was to determine how to segregate the Debtors' activity from that of Ympactus, since SIG did not clearly differentiate the User Accounts between the two.

54. SIG includes 17,016,780 distinct User Accounts associated with 2,166,955 Email Addresses for both the US-based and the Brazilian-based operations.

55. I believe that a valid basis exists to separate the Debtors' User Account data based upon the currency designation in the data fields.

56. The Debtors' system assigned a currency to be used to pay invoices based on the Participant's country of residence. Participants entering Brazil as their home address paid invoices denominated in Brazilian Reais ("Reais") and all others paid invoices denominated in United States Dollars, although for accounting purposes, all transactions in the database were recorded in United States Dollars. The Invoice Table distinguishes between invoices paid in United States Dollars and invoices converted to United States Dollars from Reais.

57. The Invoice Table contains a "cambio" or "exchange rate" field. In 99.7% of transactions, by amount, where the currency field is denominated as "D" or United States Dollars, the cambio field is populated with a "0". In 99.8% of the transactions where the currency field is denominated as "R" or Brazilian Reais, the cambio field is populated with a range of values from 1.98 to 2.37 (that is, 1.98 to 2.37 Reais for each 1 Dollar). I have confirmed that the two currencies traded in this conversion range during the time that the Debtors and Ympactus were simultaneously in operation.

58. Through a review of the currency field data, I have further determined the following:

- a. Prior to the shutdown of Ympactus in June 2013, invoices in User Accounts with Brazilian contact information were denominated in Reais and invoices in User Accounts with non-Brazilian contact information were denominated in Dollars;
- b. Fewer than 700 Reais-denominated User Accounts were associated with non-Brazilian addresses. Similarly, fewer than 150 Dollar-denominated User Accounts were associated with Brazilian addresses; and
- c. There was relatively little activity after the shutdown of Ympactus for Reais-denominated User Accounts that were created prior to the shutdown, and all cash activity for Reais-denominated accounts ceased shortly after the shutdown.

59. Utilizing the currency designation, 10,987,617 User Accounts are associated with the Debtors' operations and 4,006,422 User Accounts are associated with Ympactus operations. The remaining User Accounts have no activity.

II. FINDING OF EXISTENCE OF PONZI AND PYRAMID SCHEME

60. Participants who purchased the AdCentral Plan became entitled to receive a VoIP Package each week by placing one internet advertisement per day. These VoIP Packages could be, and routinely were, converted into credits for \$20 weekly for 52 weeks, for a 207% return on the initial investment of \$339. Participants who purchased the more expensive AdCentral Family Plan were entitled to receive five additional VoIP Packages each week by placing five internet advertisements per day. These VoIP Packages could be, and routinely were, converted into credits for \$100 weekly for 52 weeks, for a return of 265% on the initial investment of \$1,425.

61. The repetitive posting of internet advertisements (which were reportedly supplied by the Debtors) served no legitimate purpose, because anyone who used “telexfree” as an internet search term would be led to the Debtors’ own website, and the repetitive posting of similar advertisements had no discernable value. For example, one website, Adpost.com, contained more than 33,000 postings submitted by Participants for TelexFree, while another, ClassifiedsGiant.com, contained more than 25,000 postings

62. Participants did not draft the advertisements or perform any design services for their configuration, and the placing the ads could be, and often was, outsourced to third parties for a nominal fee. The requirement of posting advertisements to receive weekly payments obfuscated the true nature of the scheme – that the credits were a disguised, “guaranteed” return on the Participant’s initial investment.

63. The guarantee of an astronomical return on the initial investment without the requirement to sell any product created perverse incentives for Participants. Participants opened multiple User Accounts for the sole purpose of leveraging their fictitious profits, without the need to sell any product or recruit any individuals. Some Participants appear to have invested a substantial portion of their life savings into the scheme seeking to quickly triple or quadruple their investment. Participants opened hundreds of User Accounts, ultimately resulting in an exponential rise in the number of User Accounts.

64. Participants who opened multiple User Accounts on their own behalf could generate credits by essentially recruiting themselves. Participants could receive (1) \$20 worth of credits for recruitment of an AdCentral Plan member and \$100 in credits for recruitment of an AdCentral Family Plan member, and (2) \$20 in credits for each membership plan in one’s downline, up to a maximum of \$440 in credits, so long as that Participant recruited two new User

Accounts in his/her downline by either opening User Accounts in his/her own name or by recruiting new Participants.

65. While there were certain provisions of the Debtors' MLMP that ostensibly required the sale of VoIP Packages as a requirement for receiving credits, the credits that could be generated for those activities were relatively insignificant and the requirements were easily circumvented by Participants.⁴

66. The Debtors had \$359,792,242 in actual cash sales during the two year operation of the scheme. Of this amount, approximately \$353,000,000 was from the sale of membership plans and \$6,600,000 was from the sale of VoIP Packages. Even more remarkably, seventy-seven percent (77%) of sales occurred in the six weeks before the filing in a belated attempt by the Debtors to fix their fatally flawed plan by ostensibly requiring the sale of VoIP Packages to receive bonuses and commissions in the future.

67. By and large, the few VoIP Packages that were sold were not used. Of the \$6,600,000 in VoIP Package cash sales, less than one percent (1%) of available minutes contained in these packages were actually utilized, further demonstrating that the Debtors were not operating a bona fide MLMP and the VoIP Packages were not a legitimate product.⁵ Approximately \$477,888,000 in VoIP Packages were sold through the use of accumulated credits. Approximately eighty percent (80%) of these sales occurred in the six weeks leading up to the Petition Date in connection with implementation of the new compensation scheme.

⁴ While the generation of certain commissions required activation of VoIP Packages in a Participant's downline, this requirement was circumvented by the purchase of VoIP Packages with accumulated credits. Credits were also issued for the sale of standalone VoIP Packages but VoIP Packages were rarely sold to third parties.

⁵ This estimate is based upon information contained in the Disk A Vantage database (which includes VoIP service for both the Debtors and Ympactus) for the period July 2012 through June 2013, as well as usage of only the Debtors' VoIP service for the period July 2013 to April 2014.

68. The total reliance on the sale of membership plans, as opposed to the sale of a legitimate product, made the collapse of the Debtors' scheme inevitable.

69. A calculation of the Debtors' twelve month trailing liability, that is, the amount due to Participants over the following year on account of the guaranteed return, further evidences the unsustainability of the scheme. This liability grew exponentially in the year prior to the Petition Date, eventually rising to more than \$5,000,000,000 as of the Petition Date. Attached as *Exhibit "2"* hereto is a computation of the 12 month trailing liability as of the Petition Date. This trailing liability more than tripled in the five (5) months leading up to the Chapter 11 filings, far outpacing any cash generated from the sale of VoIP Packages.⁶ The \$5,000,000,000 trailing liability is more than seven hundred times the \$6,600,000 in cash receipts from the sale of VoIP Packages since inception of the Debtors' MLMP. The sale of additional membership plans only deepened the insufficiency.

IV. THE DEBTORS ARE JOINTLY LIABLE FOR PARTICIPANT CLAIMS

70. The Debtors worked in concert with one another to develop, market, and operate their Ponzi and pyramid scheme. The Debtors had common ownership and each was controlled by Wanzeler and Merrill, as well as Carlos Costa at least through his alleged separation from the Debtors in the fall of 2013.

71. Each of the Debtors was intimately involved in the scheme. Common Cents Communications, Inc., which was owned and controlled by Wanzeler, Merrill, and Steven Labriola, changed its name to TelexFree, Inc. in early 2012 in conjunction with the marketing

⁶ While certain provisions of Participant contracts did not require the payment to Participants for VoIP Packages issued to them, this contractual provision is completely undermined by the unmistakable statements in marketing materials and some of the Participant contracts promising Participants the right to a guaranteed return on investment without the need to sell any product.

and selling of VoIP Packages through the Debtors' MLMP. Shortly thereafter, in July 2012, TelexFree, LLC was formed, to conduct TelexFree's operations outside of Massachusetts.

72. TelexFree, Inc. and TelexFree, LLC worked collaboratively in furtherance of the scheme throughout 2012 and 2013, including joint marketing efforts, promotional materials, and Participant recruitment events. TelexFree, Inc. and TelexFree, LLC alternated responsibility for maintaining bank accounts, because on multiple occasions TelexFree was asked to close accounts with banks because of suspicious account activity.

73. After the seizure and shutdown of Ympactus by Brazilian authorities, TelexFree, LLC and TelexFree, Inc. saw a substantial increase in activity, which further exacerbated difficulties with banking facilities needed to conduct the TelexFree scheme. TelexFree Financial, Inc. was formed in Florida in December 2013 and opened bank accounts and paid expenses of TelexFree, Inc. and TelexFree, LLC. In late 2013, TelexFree, Inc. and TelexFree, LLC transferred more than \$4,000,000 to an account at TelexFree Financial. TelexFree Financial deposited an additional \$10,000,000 in membership fees and VoIP Package sales in February 2014. The only Debtor with employees was TelexFree, Inc. and these employees were being paid by TelexFree Financial.

74. TelexFree Financial rendered substantial assistance to TelexFree, LLC and TelexFree, Inc. in furtherance of the Ponzi and pyramid scheme.

75. The Debtors had a common design or agreement to establish and implement the Ponzi and pyramid scheme. The Debtors engaged in a common enterprise to further their plan.

I attest that, to the best of my knowledge, the foregoing is true and accurate.

Dated: October 7, 2015


Stephen B. Darr
Chapter 11 Trustee

695349

Exhibit 1

In re: TelexFree, LLC, *et al.*

Cash Receipts by Month - TelexFree and Ympactus

Month	TelexFree	Ympactus
February 2012	\$ 150	\$ 22,942
March 2012	1,884	84,503
April 2012	14,709	336,350
May 2012	43,983	1,847,443
June 2012	53,606	4,764,547
July 2012	84,986	8,948,617
August 2012	375,556	15,030,324
September 2012	768,207	34,346,283
October 2012	290,450	12,987,841
November 2012	693,672	34,128,986
December 2012	616,314	55,083,742
January 2013	1,764,966	143,425,971
February 2013	4,972,733	257,513,534
March 2013	3,800,994	121,512,314
April 2013	5,983,150	149,372,999
May 2013	9,467,356	284,144,633
June 2013	13,949,543	184,497,992
July 2013	12,180,176	-
August 2013	18,850,084	-
September 2013	9,279,178	-
October 2013	14,929,643	-
November 2013	27,738,566	-
December 2013	33,310,766	-
January 2014	48,483,827	-
February 2014	96,630,356	-
March 2014	53,385,849	-
April 2014	2,121,537	-
	<u>\$ 359,792,242</u>	<u>\$ 1,308,049,021</u>

Note: Determination of TelexFree vs. Ympactus based on Invoice Table data as described in Darr Affidavit.

Source: Debtors' Participant database.

Exhibit 2

In re: TelexFree, LLC, *et al.*

Trailing Liability Calculation - Advertising Bonus^{1,2,3}

Trailing Liability	Outstanding ADCentral Payments	Outstanding ADCentral Family Payments	ADCentral Liability (\$20 per week)	ADCentral Family Liability (\$100 per Week)	Total Liability
February 2012	\$ -	\$ -	\$ -	\$ -	\$ -
March 2012	-	-	-	-	-
April 2012	-	-	-	-	-
May 2012	-	102	-	10,200	10,200
June 2012	-	1,871	-	187,100	187,100
July 2012	-	2,881	-	288,100	288,100
August 2012	-	5,659	-	565,900	565,900
September 2012	1,237	5,735	24,740	573,500	598,240
October 2012	5,640	20,526	112,800	2,052,600	2,165,400
November 2012	9,989	39,832	199,780	3,983,200	4,182,980
December 2012	19,484	94,394	389,680	9,439,400	9,829,080
January 2013	31,697	182,875	633,940	18,287,500	18,921,440
February 2013	78,520	356,527	1,570,400	35,652,700	37,223,100
March 2013	164,655	506,542	3,293,100	50,654,200	53,947,300
April 2013	283,453	761,101	5,669,060	76,110,100	81,779,160
May 2013	494,359	1,261,216	9,887,180	126,121,600	136,008,780
June 2013	739,166	1,798,677	14,783,320	179,867,700	194,651,020
July 2013	1,096,143	2,411,703	21,922,860	241,170,300	263,093,160
August 2013	1,684,888	3,656,684	33,697,760	365,668,400	399,366,160
September 2013	2,559,676	5,852,955	51,193,520	585,295,500	636,489,020
October 2013	3,583,231	9,169,675	71,664,620	916,967,500	988,632,120
November 2013	4,826,215	13,775,043	96,524,300	1,377,504,300	1,474,028,600
December 2013	6,357,701	20,343,202	127,154,020	2,034,320,200	2,161,474,220
January 2014	8,284,248	31,105,685	165,684,960	3,110,568,500	3,276,253,460
February 2014	10,409,821	45,926,764	208,196,420	4,592,676,400	4,800,872,820
March 2014	10,611,602	50,826,455	212,232,040	5,082,645,500	5,294,877,540
April 13, 2014	10,021,920	48,251,878	200,438,400	4,825,187,800	5,025,626,200
April 2014	9,432,888	45,682,130	188,657,760	4,568,213,000	4,756,870,760

Notes

1. Trailing liability calculated as of the last day of each month based on the weekly Advertising Bonus as described in TelexFree Participant contracts
2. Includes purchases of AdCentral and AdCentral Family plans and excludes commission other than weekly Advertising Bonus
3. Assumes Participants purchasing AdCentral or AdCentral Family plans would place required advertisements and receive Advertising Bonus each week.

Source: Debtors' Participant database.

Exhibit

3

BY CERTIFIED MAIL

September 9, 2016

Internal Revenue Service
Centralized Insolvency Operation
P.O. Box 7346
Philadelphia, PA 19101-7346

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Forms: 1120X & 1120
Tax Periods: December 31, 2012 & December 31, 2013

REQUEST FOR PROMPT REFUND

Dear Sir or Madam:

On behalf of TelexFree, LLC ("Taxpayer"), enclosed please find Form 1120X, *Amended U.S. Corporation Income Tax Return*, for the period ended December 31, 2012, and Form 1120, *U.S. Corporation Income Tax Return*, for the period ended December 31, 2013. This request is being submitted pursuant to section 505(a) of the Bankruptcy Code.

Under the penalties of perjury, I declare that I have examined this application, and, to the best of my knowledge and belief, it is true, correct, and complete.

If you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,
Estate of TelexFree, LLC


Stephen Darr
Bankruptcy Trustee

RECEIVED

SEP 21 2016

RECEIVED
PCC

SEP 13 2016

INSOLVENCY

Telexfree, LLC

Tax Year Ended: December 31, 2013

EIN: [REDACTED]

The taxpayer and related entities (collectively, the "Debtors") operated a Ponzi/pyramid scheme from April 2012 to April 2014 when they filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. While the Debtors purported to be in the business of selling phone packages before their bankruptcy filings, the primary purpose of their operation was to reward participants for the recruitment of additional participants. The Debtors also compensated participants for advertising and product sales.

The taxpayer's return was prepared using the books and records provided by the Chapter 11 Trustee appointed by the Bankruptcy Court to oversee the Debtors' Chapter 11 cases. Homeland Security Investigation, the investigative arm of the Department of Homeland Security, provided the Trustee with copies of electronic information contained in the Debtors' computers and servers. The Trustee used this data to recreate the information management system used by the Debtors, which tracked account activity of the Ponzi/pyramid scheme's participants. A motion the Trustee filed with the bankruptcy court, attached, outlines in detail the process the trustee and his associates followed to search, organize, and test the data recovered. KPMG has not independently verified such information and it may contain estimates.

The books and records show that the Debtors operated at a loss each year as the Ponzi/pyramid scheme provided participants with significant and unsustainable returns on investment. The income reported on the taxpayer's return represents amounts the taxpayer received from participants for membership plans or phone packages. The deductions claimed by the taxpayer are for amounts owed to participants for advertising services, as well as other general operating expenses. For the sake of simplicity, the taxpayer is not claiming a deduction for certain other expenses (e.g., commissions due to participants for product and membership plan sales) as the deductions reported on the return far exceed the taxpayer's taxable income.

This tax return has been prepared using the best available information, which was limited in nature and in the ability to verify its accuracy to source documents. The trustee and his advisors have no personal knowledge regarding the historical operations of the company nor do they have access to former employees or many of the records.

Form **1120X**
(Rev. January 2011)

Department of the Treasury
Internal Revenue Service

**Amended U.S. Corporation
Income Tax Return**

OMB No. 1545-0132

For tax year ending
12/31/2012
(Enter month and year.)

Name	TELEXFREE, LLC			Employer identification number	
Number, street, and room or suite no. (If a P.O. box, see instructions)	125 SUMMER STREET #1805				
City or town, state, and ZIP code	BOSTON, MA			Telephone number (optional)	02110
Enter name and address used on original return (If same as above, write "Same.")					
TELEXFREE, LLC					
Internal Revenue Service Center where original return was filed					
OGDEN, UT					

Fill in applicable items and use Part II on the back to explain any changes

Part I Income and Deductions (see instructions)		(a) As originally reported or as previously adjusted	(b) Net change - increase or (decrease) - explain in Part II	(c) Correct amount
1 Total income	1	2,080,067.	13,327,613.	15,407,680.
2 Total deductions	2	62,065.	16,585,558.	16,647,623.
3 Taxable income. Subtract line 2 from line 1	3	2,018,002.	-3,257,945.	-1,239,943.
4 Total tax	4	692,854.	-692,854.	NONE

Payments and Credits (see instructions)

5a Overpayment in prior year allowed as a credit	5a		
5b Estimated tax payments	5b		
5c Refund applied for on Form 4466	5c		
5d Subtract line 5c from the sum of lines 5a and 5b	5d		
5e Tax deposited with Form 7004	5e		
5f Credit from Form 2439	5f		
5g Credit for federal tax on fuels and other refundable credits	5g		
6 Tax deposited or paid with (or after) the filing of the original return	6		692,854.
7 Add lines 5d through 6, column (c)	7		692,854.
8 Overpayment, if any, as shown on original return or as later adjusted	8		
9 Subtract line 8 from line 7	9		692,854.

Tax Due or Overpayment (see instructions)

10 Tax due. Subtract line 9 from line 4, column (c). If paying by check, make it payable to the "United States Treasury"	10	
11 Overpayment. Subtract line 4, column (c), from line 9	11	692,854.
12 Enter the amount of line 11 you want: Credited to 20 Estimated tax Refunded	12	692,854.

Sign Here

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer

Date

Title

Paid Preparer Use Only

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if self-employed

PTIN

Firm's name

Firm's address

Firm's EIN

Phone no.

For Paperwork Reduction Act Notice, see instructions.

617-988-1000

Form 1120X (Rev. 1-2011)

JSA
2C1820 1.000

1462KP 1592

Form 1120X (Rev. 1-2011)

Page 2

Part II Explanation of Changes to Items in Part I (Enter the line number from page 1 for the items you are changing, and give the reason for each change. Show any computation in detail. Also, see What To Attach in the instructions.)

If the change is due to a net operating loss carryback, a capital loss carryback, or a general business credit carryback, see Carryback Claims in the instructions, and check here ☐

THE RETURN IS BEING AMENDED DUE TO INCOME AND

EXPENSES BEING REPORTED ERRONEOUSLY ON THE

ORIGINALLY FILED RETURN AS WELL AS THE COMPANY

BEING DEEMED A PONZI SCHEME BY THE UNITED STATES

BANKRUPTCY COURT, DISTRICT OF MASSACHUSETTS,

CENTRAL DIVISION.

PLEASE SEE ATTACHED FORM 1120X EXPLANATION OF

AMENDED RETURN CHANGES.

PLEASE SEE AMENDED RETURN CHANGES ON STATEMENT 1 OF AMENDED RETURN

Telexfree, LLC

Tax Year Ended: December 31, 2012

EIN: [REDACTED]

FORM 1120X EXPLANATION OF AMENDED RETURN CHANGES

The taxpayer and related entities (collectively, the "Debtors") operated a Ponzi/pyramid scheme from April 2012 to April 2014 when they filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. While the Debtors purported to be in the business of selling phone packages before their bankruptcy filings, the primary purpose of their operation was to reward participants for the recruitment of additional participants. The Debtors also compensated participants for advertising and product sales.

The taxpayer's return was prepared using the books and records provided by the Chapter 11 Trustee appointed by the Bankruptcy Court to oversee the Debtors' Chapter 11 cases. Homeland Security Investigation, the investigative arm of the Department of Homeland Security, provided the Trustee with copies of electronic information contained in the Debtors' computers and servers. The Trustee used this data to recreate the information management system used by the Debtors, which tracked account activity of the Ponzi/pyramid scheme's participants. A motion the Trustee filed with the bankruptcy court, attached, outlines in detail the process the trustee and his associates followed to search, organize, and test the data recovered. KPMG has not independently verified such information and it may contain estimates.

The books and records show that the Debtors operated at a loss each year as the Ponzi/pyramid scheme provided participants with significant and unsustainable returns on investment. The income reported on the taxpayer's return represents amounts the taxpayer received from participants for membership plans or phone packages. The deductions claimed by the taxpayer are for amounts owed to participants for advertising services, as well as other general operating expenses. For the sake of simplicity, the taxpayer is not claiming a deduction for certain other expenses (e.g., commissions due to participants for product and membership plan sales) as the deductions reported on the return far exceed the taxpayer's taxable income.

The taxpayer's original 2012 return was prepared by a tax advisor/preparer who was complicit in the Ponzi/pyramid scheme. The taxpayer is amending the original return as it is inconsistent with the taxpayer's books and records and the underlying nature of the Debtors' operation.

This tax return has been prepared using the best available information, which was limited in nature and in the ability to verify its accuracy to source documents. The trustee and his advisors have no personal knowledge regarding the historical operations of the company nor do they have access to former employees or many of the records.

Form 1120		U.S. Corporation Income Tax Return		OMB No. 1545-0123	
Department of the Treasury Internal Revenue Service		For calendar year 2012 or tax year beginning 07/19/2012, ending 12/31/2012		2012	
Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.					
A Check if: 1a Consolidated return (attach Form 951) b Life/nonlife consolidated return 2 Personal holding co (attach Sch. PH) 3 Personal service corp. (see instructions) 4 Schedule M-3 attached <input checked="" type="checkbox"/>		NAME TELEXFREE, LLC C/O STEPHEN DARR, BANKRUPTCY TRUSTEE Number, street, and room or suite no. If a P.O. box, see instructions. 125 SUMMER STREET #1805 City or town, state, and ZIP code BOSTON, MA 02110		B Employer identification number [REDACTED] C Date incorporated 07/19/2012 D Total assets (see instructions) \$ 14,059,867.	
TYPE OR PRINT		E Check if: (1) <input checked="" type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input checked="" type="checkbox"/> Address change			
Income		1a Gross receipts or sales 1a 15,490,350.		1c 15,490,350.	
b Returns and allowances 1b				2 82,670.	
c Balance. Subtract line 1b from line 1a				3 15,407,680.	
2 Cost of goods sold (attach Form 1125-A)				4	
3 Gross profit. Subtract line 2 from line 1c				5	
4 Dividends (Schedule C, line 19)				6	
5 Interest				7	
6 Gross rents				8	
7 Gross royalties				9	
8 Capital gain net income (attach Schedule D (Form 1120))				10	
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)				11 15,407,680.	
10 Other income (see instructions - attach statement)				12	
11 Total income. Add lines 3 through 10				13	
12 Compensation of officers (see instructions - attach Form 1125-E)				14	
13 Salaries and wages (less employment credits)				15	
14 Repairs and maintenance				16	
15 Bad debts				17 5,468,230.	
16 Rents				18	
17 Taxes and licenses SEE STATEMENT 2.				19	
18 Interest				20 PAID	
19 Charitable contributions				21 PAID	
20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)				22 15,2010	
21 Depletion				23 15,2010	
22 Advertising				24	
23 Pension, profit-sharing, etc., plans				25 11,179,393.	
24 Employee benefit programs				26 16,647,623.	
25 Domestic production activities deduction (attach Form 8903)				27 -1,239,943.	
26 Other deductions (attach statement) SEE STATEMENT 3.				28 STMT 4	
27 Total deductions. Add lines 12 through 26				29a NONE	
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11				29b	
29a Net operating loss deduction (see instructions)				29c NONE	
b Special deductions (Schedule C, line 20)				30 -1,239,943.	
c Add lines 29a and 29b				31	
30 Taxable income. Subtract line 29c from line 28 (see instructions)				32 692,854.	
31 Total tax (Schedule J, Part I, line 11)				33	
32 Total payments and refundable credits (Schedule J, Part II, line 21) PAID WITH ORIGINAL RETURN				34	
33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>				35 692,854.	
34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed				36 692,854.	
35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid					
36 Enter amount from line 35 you want. Credited to 2013 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>					
Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. Signature of officer: <u>Stephen Darr</u> Date: <u>9/9/16</u> Title: <u>Trustee</u>				May the IRS discuss this return with the preparer shown below (see instructions)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Paid Preparer Use Only Print/Type preparer's name: <u>JOSEPH MIDDLETON</u> Firm's name: <u>KPMG LLP</u> Firm's address: <u>60 SOUTH STREET BOSTON, MA 02111</u> Preparer's signature: <u>Just Mider</u> Date: <u>9/9/16</u> Check <input type="checkbox"/> if self-employed Firm's EIN: <u>[REDACTED]</u> Phone no: <u>617-988-1000</u>					

TELEXFREE, LLC
 Form 1120 (2012)

Page 2

Schedule C Dividends and Special Deductions (see instructions)

	(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1 Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2 Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3 Dividends on debt-financed stock of domestic and foreign corporations			
4 Dividends on certain preferred stock of less-than-20%-owned public utilities . .		42	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities . . .		48	
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs . . .		70	
7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs . . .		80	
8 Dividends from wholly owned foreign subsidiaries		100	
9 Total. Add lines 1 through 8. See instructions for limitation			
10 Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11 Dividends from affiliated group members		100	
12 Dividends from certain FSCs		100	
13 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12 .			
14 Income from controlled foreign corporations under subpart F (attach Form(s) 5471), . . .			
15 Foreign dividend gross-up			
16 IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17 Other dividends			
18 Deduction for dividends paid on certain preferred stock of public utilities			
19 Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4 . . . ▶			
20 Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Form 1120 (2012)

TELEXFREE, LLC

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Schedule J Tax Computation and Payment (see instructions)

Part I - Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))		
2	Income tax. Check if a qualified personal service corporation (see instructions)		2
3	Alternative minimum tax (attach Form 4626)		3
4	Add lines 2 and 3		4
5a	Foreign tax credit (attach Form 1118)	5a	
b	Credit from Form 8834, line 30 (attach Form 8834)	5b	
c	General business credit (attach Form 3800)	5c	
d	Credit for prior year minimum tax (attach Form 8827)	5d	
e	Bond credits from Form 8912	5e	
6	Total credits. Add lines 5a through 5e		6
7	Subtract line 6 from line 4		7
8	Personal holding company tax (attach Schedule PH (Form 1120))		8
9a	Recapture of investment credit (attach Form 4255)	9a	
b	Recapture of low-income housing credit (attach Form 8611)	9b	
c	Interest due under the look-back method - completed long-term contracts (attach Form 8697)	9c	
d	Interest due under the look-back method - income forecast method (attach Form 8666)	9d	
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
f	Other (see instructions - attach statement)	9f	
10	Total. Add lines 9a through 9f		10
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31		11

Part II - Payments and Refundable Credits

12	2011 overpayment credited to 2012		12
13	2012 estimated tax payments		13
14	2012 refund applied for on Form 4466		14 ()
15	Combine lines 12, 13, and 14		15
16	Tax deposited with Form 7004		16
17	Withholding (see instructions)		17
18	Total payments. Add lines 15, 16, and 17		18
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4138	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement - see instructions), PAID WITH ORIGINAL RETURN	19d	692,854.
20	Total credits. Add lines 19a through 19d		20 692,854.
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32		21 692,854.

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____	Yes No
2	See the instructions and enter the:	
a	Business activity code no. <u>454390</u>	
b	Business activity <u>DIRECT SALES</u>	
c	Product or service <u>COMMUNICATIONS</u>	
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation _____	X
4	At the end of the tax year:	
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G).	X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G).	X

Form 1120 (2012)

TELEXFREE, LLC

Form 1120 (2012)

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Schedule K Other information continued (see instructions)

5 At the end of the tax year, did the corporation:

Yes No

a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

X

(i) Name of Corporation

(ii) Employer Identification Number (if any)

(iii) Country of Incorporation

(iv) Percentage Owned in Voting Stock

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

X

(i) Name of Entity

(ii) Employer Identification Number (if any)

(iii) Country of Organization

(iv) Maximum Percentage Owned in Profit, Loss, or Capital

6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)

X

If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.

If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.

7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock? For rules of attribution, see section 318. If "Yes," enter:

X

(i) Percentage owned 30.00 and (ii) Owner's country BR

(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached 1

8 Check this box if the corporation issued publicly offered debt instruments with original issue discount ☐ If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

9 Enter the amount of tax-exempt interest received or accrued during the tax year \$

10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) 3

11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ☐ If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) \$

13 Are the corporation's total receipts (line 1c plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000?

X

If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year \$

14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)?

X

If "Yes," complete and attach Schedule UTP.

15a Did the corporation make any payments in 2012 that would require it to file Form(s) 1099?

X

b If "Yes," did or will the corporation file required Forms 1099?

X

16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?

X

17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction?

X

18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million?

X

Form 1120 (2012)

TELEXFREE, LLC

Form 1120 (2012)

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Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash				1,207,048.
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts				
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach schedule)	STMT 5	NONE		12,849,344.
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach schedule)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation				
11a	Depletable assets				
b	Less accumulated depletion				
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization				
14	Other assets (attach schedule)	STMT 5	NONE		3,475.
15	Total assets		NONE		14,059,867.
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach schedule)	STMT 5	NONE		5,470,901.
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more		NONE		50.
21	Other liabilities (attach schedule)	STMT 5	NONE		9,829,080.
22	Capital stock: a Preferred stock				
b	Common stock				
23	Additional paid-in capital				
24	Retained earnings - Appropriated (attach schedule)				
25	Retained earnings - Unappropriated				
26	Adjustments to shareholders' equity (attach schedule)				-1,240,164.
27	Less cost of treasury stock				
28	Total liabilities and shareholders' equity		NONE		14,059,867.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more - see instructions

1	Net income (loss) per books	-1,240,164.	7	Income recorded on books this year not included on this return (itemize): Tax-exempt interest \$	
2	Federal income tax per books		8	Deductions on this return not charged against book income this year (itemize): a Depreciation \$ b Charitable contributions \$	
3	Excess of capital losses over capital gains		9	Add lines 7 and 8	
4	Income subject to tax not recorded on books this year (itemize):		10	Income (page 1, line 28) - line 6 less line 9	-1,239,943.
5	Expenses recorded on books this year not deducted on this return (itemize): a Depreciation \$ b Charitable contributions \$ c Travel and entertainment \$	221.			
6	Add lines 1 through 5	-1,239,943.			

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year		5	Distributions: a Cash	
2	Net income (loss) per books	-1,240,164.	b	Stock	
3	Other increases (itemize):		c	Property	
4	Add lines 1, 2, and 3	-1,240,164.	6	Other decreases (itemize):	
			7	Add lines 5 and 6	
			8	Balance at end of year (line 4 less line 7)	-1,240,164.

Form **1125-A**

(Rev. December 2012)

Department of the Treasury
Internal Revenue Service

Cost of Goods Sold

▶ Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.

OMB No. 1545-2225

▶ Information about Form 1125-A and its instructions is at www.irs.gov/form1125a.

Name TELEFREE, LLC		Employer identification number
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		
1	Inventory at beginning of year	1
2	Purchases	2
3	Cost of labor	3
4	Additional section 263A costs (attach schedule)	4
5	Other costs (attach schedule)	5
6	Total. Add lines 1 through 5	6
7	Inventory at end of year	7
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8
9a	Check all methods used for valuing closing inventory:	
	(i) <input type="checkbox"/> Cost	
	(ii) <input type="checkbox"/> Lower of cost or market	
	(iii) <input type="checkbox"/> Other (Specify method used and attach explanation.) ▶	
b	Check if there was a writedown of subnormal goods	<input type="checkbox"/>
c	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970)	<input type="checkbox"/>
d	If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO	9d
e	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (defined below), you can adopt or change your accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method).

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, you can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See the instructions for lines 2 and 7.

For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on adopting or changing to this method of accounting, see Form 3115, Application for Change in Accounting Method, and its instructions.

Qualifying taxpayer. A qualifying taxpayer is a taxpayer that, (a) for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3 prior tax years and (b) its business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2001-10, 2001-2 I.R.B. 272.

Qualifying small business taxpayer. A qualifying small business taxpayer is a taxpayer that, (a) for each prior tax year

ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years, (b) whose principal business activity is not an ineligible activity, and (c) whose business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2002-28, 2002-18, I.R.B. 815.

Uniform capitalization rules. The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

TELEXFREE, LLC

FORM 1120X - PART II - AMENDED RETURN CHANGES DETAIL

LINE #	DESCRIPTION	AMOUNT BEFORE	AMOUNT AFTER
1A	GROSS RECEIPTS OR SALES		
1B	RETURNS AND ALLOWANCES	2,193,079.	15,490,350.
2	COST OF GOODS SOLD	113,012.	NONE
17	TAXES AND LICENSES	NONE	82,670.
17	STATE AND LOCAL TAXES	NONE	4,624,801.
26	AGENT COMMISSION	NONE	843,429.
26	REFUND	NONE	1,175,236.
26	CHARGEBACKS	NONE	10,393.
26	CHARGED TWICE	NONE	23,107.
26	FRAUD	NONE	9,197.
26	NO DOCUMENTS SENT	NONE	67,674.
26	ADVERTISING CREDIT EXPENSE	NONE	2,641.
			9,829,080.
	TOTAL	2,306,091.	32,158,578.

TELEXFREE, LLC



FORM 1120, PAGE 1 DETAIL

LINE 17 - TAX SUMMARY

TAXES (EXCLUDING INCOME TAXES)	4,624,801.
OTHER STATE AND LOCAL TAXES	843,429.
TOTAL	5,468,230.

LINE 17 - TAXES AND LICENSES

TAXES AND LICENSES	4,624,801.
STATE AND LOCAL INCOME TAXES	843,429.
TOTAL	5,468,230.



TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 26 - SUMMARY OF TRAVEL, MEALS AND ENTERTAINMENT

GROSS MEALS AND ENTERTAINMENT	442.
LESS 50% LIMITATION TO SCH M-1	221.
NET MEALS & ENTERTAINMENT	221.
TOTAL	221.

LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT	221.
AGENT COMISSION	1,175,236.
BANK CHARGES	20.
MERCHANT FEES	61,824.
REFUND	10,393.
CHARGEBACKS	23,107.
CHARGED TWICE	9,197.
FRAUD	67,674.
NO DOCUMENTS SENT	2,641.
ADVERTISING CREDIT EXPENSE	9,829,080.
TOTAL	11,179,393.

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 29A - NON-SRLY NOL DEDUCTION

YEAR ENDING	ORIGINAL NOL	AMOUNT AVAILABLE	AMOUNT USED	CONVERTED CONTRIBUTIONS	CARRYOVER TO NEXT YEAR
12/31/2012	1,239,943.	1,239,943.			1,239,943.
TOTAL	1,239,943.	1,239,943.			1,239,943.

1462KP 1592

18

STATEMENT 4

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 -
OTHER CURRENT ASSETS

	BEGINNING	ENDING
PROPERTY ON HOLD	NONE	278,374.
LOAN FROM TELEXFREE, INC	NONE	701,525.
LOAN TO YMPACTUS - CURRENT	NONE	11,869,445.
TOTAL	NONE	12,849,344.

SCH L, LINE 14 - OTHER ASSETS

ORGANIZATIONAL COSTS	NONE	3,475.
TOTAL	NONE	3,475.

SCH L, LINE 18 -
OTHER CURRENT LIABILITIES

ACCRUED FEDERAL INCOME TAX	NONE	4,624,801.
ACCRUED STATE TAXES	NONE	843,429.
BRAZILLIAN HELP, INC	NONE	2,671.
TOTAL	NONE	5,470,901.

SCH L, LINE 21 - OTHER LIABILITIES

ACCRUED ADVERTISING CREDITS	NONE	9,829,080.
TOTAL	NONE	9,829,080.

TELEXFREE, LLC



FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

TERMINATION

82,670.

TOTAL

82,670.
=====



Form 1120 Department of the Treasury Internal Revenue Service		U.S. Corporation Income Tax Return For calendar year 2012 or tax year beginning <u>7/19/2012</u> , ending <u>12/31/2012</u> Information about Form 1120 and its separate instructions is at www.irs.gov/form1120		OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold;">2012</div>
A Check if: 1a Consolidated return (attach Form 951) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>		Name TELEXFREE, LLC Number, street, and room or suite no. If a P.O. box, see instructions. 4705 S. DURANGO DRIVE #100-J51 City or town State ZIP code LAS VEGAS NV 89147		B Employer identification number <div style="background-color: black; width: 100px; height: 20px;"></div> C Date incorporated 7/19/2012 D Total assets (see instructions) \$ 2,017,831
E Check if: (1) <input checked="" type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change				
Income 1a Gross receipts or sales 1a 2,193,079 b Returns and allowance 1b 113,012 c Balance. Subtract line 1b from line 1a 1c 2,080,067 2 Cost of goods sold (attach Form 1125-A) 2 3 Gross profit. Subtract line 2 from line 1c 3 2,080,067 4 Dividends (Schedule C, line 19) 4 5 Interest 5 6 Gross rents 6 7 Gross royalties 7 8 Capital gain net income (attach Schedule D (Form 1120)) 8 9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) 9 10 Other income (see instructions—attach statement) 10 11 Total income. Add lines 3 through 10 11 2,080,067		Deductions (See instructions for limitations on deductions.) 12 Compensation of officers (see instructions—attach Form 1125-E) 12 13 Salaries and wages (less employment credits) 13 14 Repairs and maintenance 14 15 Bad debts 15 16 Rents 16 17 Taxes and licenses 17 18 Interest 18 19 Charitable contributions 19 20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) 20 21 Depletion 21 22 Advertising 22 23 Pension, profit-sharing, etc., plans 23 24 Employee benefit programs 24 25 Domestic production activities deduction (attach Form 8903) 25 26 Other deductions (attach statement) 26 62,065 27 Total deductions. Add lines 12 through 26 27 62,065 28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 28 2,018,002 29a Net operating loss deduction (see instructions) 29a b Special deductions (Schedule C, line 20) 29b c Add lines 29a and 29b 29c		
Tax, Refundable Credits, and Payments 30 Taxable income. Subtract line 29c from line 28 (see instructions) 30 2,018,002 31 Total tax (Schedule J, Part I, line 11) 31 686,121 32 Total payments and refundable credits (Schedule J, Part II, line 21) 32 33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input checked="" type="checkbox"/> 33 6,733 34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed 34 692,854 35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid 35 36 Enter amount from line 35 you want: Credited to 2013 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/> 36				
Sign Here Signature of officer _____ Date _____ Signature of preparer _____ Date _____		MANAGING MEMBER Title _____ Date _____ <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> May the IRS discuss this return with the preparer shown below (see instructions)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </div>		
Paid Preparer Use Only Print/Type preparer's name _____ Firm's name CRAFT FINANCIAL SOLUTIONS, LLC Firm's address 825 EAST MAIN STREET, SUITE B City BOONVILLE State IN ZIP code 47601		Preparer's signature JOE H. CRAFT, CPA/PFS, CFP Date 10/22/2014 Check <input checked="" type="checkbox"/> self-employed <input type="checkbox"/> PTIN [REDACTED] Firm's EIN [REDACTED] Phone no. 812-641-0477		

Form 1120 (2012) TELEXFREE, LLC

Page 2

Schedule C Dividends and Special Deductions (see instructions)

	(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1 Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2 Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3 Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
4 Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5 Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6 Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8 Dividends from wholly owned foreign subsidiaries		100	
9 Total. Add lines 1 through 8. See instructions for limitation			
10 Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11 Dividends from affiliated group members		100	
12 Dividends from certain FSCs		100	
13 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14 Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15 Foreign dividend gross-up			
16 IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17 Other dividends			
18 Deduction for dividends paid on certain preferred stock of public utilities			
19 Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4			
20 Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b			

Form 1120 (2012)

Form 1120 (2012) TELEXFREE, LLC

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Schedule J Tax Computation and Payment (see instructions)

Part I—Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))	<input type="checkbox"/>	
2	Income tax. Check if a qualified personal service corporation (see instructions)	<input type="checkbox"/>	2 688,121
3	Alternative minimum tax (attach Form 4626)		3
4	Add lines 2 and 3		4 688,121
5a	Foreign tax credit (attach Form 1118)	5a	
b	Credit from Form 8834, line 30 (attach Form 8834)	5b	
c	General business credit (attach Form 3800)	5c	
d	Credit for prior year minimum tax (attach Form 8827)	5d	
e	Bond credits from Form 8912	5e	
6	Total credits. Add lines 5a through 5e		6
7	Subtract line 6 from line 4		7 686,121
8	Personal holding company tax (attach Schedule PH (Form 1120))		8
9a	Recapture of investment credit (attach Form 4255)	9a	
b	Recapture of low-income housing credit (attach Form 8611)	9b	
c	Interest due under the look-back method—completed long-term contracts (attach Form 8697)	9c	
d	Interest due under the look-back method—income forecast method (attach Form 8866)	9d	
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
f	Other (see instructions—attach statement)	9f	
10	Total. Add lines 9a through 9f		10
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31		11 686,121

Part II—Payments and Refundable Credits

12	2011 overpayment credited to 2012	12	
13	2012 estimated tax payments	13	
14	2012 refund applied for on Form 4466	14	()
15	Combine lines 12, 13, and 14	15	
16	Tax deposited with Form 7004	16	
17	Withholding (see instructions)	17	
18	Total payments. Add lines 15, 16, and 17	18	
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4136	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement—see instructions)	19d	
20	Total credits. Add lines 19a through 19d	20	
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32	21	

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. ▶ 454390		
b	Business activity ▶ DIRECT SALES		
c	Product or service ▶ COMMUNICATIONS		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidary controlled group? If "Yes," enter name and EIN of the parent corporation ▶		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)	X	

Form 1120 (2012)

Form 1120 (2012) **TELEFREE, LLC**

Schedule K **Other Information** *continued (see instructions)*

Page **4**

5 At the end of the tax year, did the corporation:

- a** Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions.
If "Yes," complete (i) through (iv) below.

Yes	No
	X

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

- b** Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions.
If "Yes," complete (i) through (iv) below.

Yes	No
	X

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

- 6** During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)
If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.
If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.

Yes	No
	X

- 7** At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock?
For rules of attribution, see section 318. If "Yes," enter:

Yes	No
X	

(i) Percentage owned **30.00%** and (ii) Owner's country **Brazil**

(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached **3**

- 8** Check this box if the corporation issued publicly offered debt instruments with original issue discount ☐
If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

- 9** Enter the amount of tax-exempt interest received or accrued during the tax year **\$**

- 10** Enter the number of shareholders at the end of the tax year (if 100 or fewer) **3**

- 11** If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ☐
If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

- 12** Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) **\$**

- 13** Are the corporation's total receipts (line 1c plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000? ☐

Yes	No
	X

If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year **\$**

- 14** Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)?
If "Yes," complete and attach Schedule UTP.

Yes	No
	X

- 15a** Did the corporation make any payments in 2012 that would require it to file Form(s) 1099? ☐

- b** If "Yes," did or will the corporation file required Form(s) 1099? ☐

Yes	No
X	

- 16** During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock? ☐

Yes	No
	X

- 17** During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction? ☐

Yes	No
	X

- 18** Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million? ☐

Yes	No
	X

Form **1120** (2012)

Form 1120 (2012) **TELEXFREE, LLC**

Page 5

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash				
2a	Trade notes and accounts receivable				1,034,457
b	Less allowance for bad debts	()		()	
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)				
7	Loans to shareholders				983,374
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation	()		()	
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach statement)				
15	Total assets				2,017,831
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)				
19	Loans from shareholders				50
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)				
22	Capital stock: a Preferred stock				
	b Common stock				
23	Additional paid-in capital				
24	Retained earnings—Appropriated (attach statement)				
25	Retained earnings—Unappropriated				2,017,781
26	Adjustments to shareholders' equity (attach statement)				
27	Less cost of treasury stock	()		()	
28	Total liabilities and shareholders' equity				2,017,831

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions

1	Net income (loss) per books	2,017,781	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books			Tax-exempt interest \$	
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):				
5	Expenses recorded on books this year not deducted on this return (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation \$		a	Depreciation \$	
b	Charitable contributions \$		b	Charitable contributions \$	
c	Travel and entertainment \$ 221				
		221	9	Add lines 7 and 8	
6	Add lines 1 through 5	2,018,002	10	Income (page 1, line 28)—line 6 less line 9	2,018,002

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year		5	Distributions: a Cash	
2	Net income (loss) per books	2,017,781		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize):	
4	Add lines 1, 2, and 3	2,017,781	7	Add lines 5 and 6	
			8	Balance at end of year (line 4 less line 7)	2,017,781

Form 1120 (2012)

AS ORIGINALLY FILED**

Line 26 (1120) - Other Deductions

1	Travel, Meals and Entertainment			
	b Meals and entertainment, subject to 50% limit	1b	442	
	c Meals and entertainment, subject to 80% limit (DOT)	1c		
	d Less disallowed	1d	221	
	e Subtract line d from lines b and c			1e 221
2	Bank charges			2 20
3	Merchant Fees			3 61,824
4	Total other deductions			4 82,065
5	Total deductions less expenses for offsetting credits			5 62,065

Line 6, Sch L (1120) - Other Current Assets

		Beginning	End
1	Prepay on Hold	1	278,374
2	Loan from Telexfree, Inc.	2	705,000
3	Total other current assets	3	983,374

Line 3, Sch J (1120) - Small Corporation Exempt from AMT Determination

Complete this worksheet to determine if the corporation qualifies as a small corporation exempt from the alternative minimum tax.

Yes No
☒ ☐ Is this tax year the corporation's first year in existence?

If "Yes", Stop here. The corporation is exempt from AMT with no other qualification requirements.

☐ ☐ Did the corporation lose small corporation status in a prior year? If so, enter the change date: _____
 If "Yes", Stop here. Once a corporation loses its small corporation status, it cannot qualify in any subsequent tax year.

Tax Year	Annualized Gross Receipts	Prior Three Year Average
2012	2,080,067	

Yes
or
N/A

☐ ☐ Did the corporation have average annual gross receipts of \$5 million or less for the FIRST three-year period beginning after 1993 (for calendar year corps in existence on 1/1/1994 through 1996)?

☐ ☐ Were the corporation's average gross receipts for EVERY three-year period beginning after 1994 and ending before its tax year beginning in 2012 \$7.5 million or less? (For calendar year corporations in existence on 1/1/1994, the three year periods are: 1995-1997, 1996-1998, 1997-1999, 1998-2000, 1999-2001, 2000-2002, 2001-2003, 2002-2004, 2003-2005, 2004-2006, 2005-2007, 2006-2008, 2007-2009, 2008-2010, 2009-2011).

☐ ☐ If the corporation had only one prior tax year, were the gross receipts for the prior tax year \$5 million or less, (or the corporation was established before 1994)?

Corporation qualifies as a small corporation or is otherwise exempt from the alternative minimum tax.

Schedule L (1120) - Balance Sheets per Books

Assets		Beginning	Ending
1 Cash	1		1,034,458
2a Trade notes and accounts receivable	2a		
2b Less allowance for bad debts	2b		
2c Net trade notes and accounts receivable	2c		
3 Inventories	3		
4 U.S. government obligations	4		
5 Tax-exempt securities	5		
6 Other current assets	6		983,374
7 Loans to shareholders	7		
8 Mortgage and real estate loans	8		
9 Other investments	9		
10a Buildings and other depreciable assets	10a		
10b Less accumulated depreciation	10b		
10c Net buildings and other depreciable assets	10c		
11a Depletable assets	11a		
11b Less accumulated depletion	11b		
11c Net depletable assets	11c		
12 Land (net of any amortization)	12		
13a Intangible assets (amortizable only)	13a		
13b Less accumulated amortization	13b		
13c Net intangible assets	13c		
14 Other assets	14		
15 Total assets	15		2,017,832
Liabilities and Capital			
16 Accounts payable	16		
17 Mortgages, notes, bonds payable in less than 1 year	17		
18 Other current liabilities	18		
19 Loans from shareholders	19		50
20 Mortgages, notes, bonds payable in 1 year or more	20		
21 Other liabilities	21		
22a Capital stock (preferred)	22a		
22b Capital stock (common)	22b		
22c Net Capital Stock	22c		
23 Additional paid-in capital	23		
24 Retained earnings - appropriated	24		
25 Retained earnings - unappropriated	25		2,017,781
26 Adjustments to shareholders' equity	26		
27 Less cost of treasury stock	27		
28 Total liabilities and shareholders' equity	28		2,017,831

End of year balance sheet out of balance by

REQUEST FOR PROMPT REFUND

Form 1120 Department of the Treasury Internal Revenue Service		U.S. Corporation Income Tax Return For calendar year 2013 or tax year beginning _____, ending _____ Information about Form 1120 and its separate instructions is at www.irs.gov/form1120 .		OMB No. 1545-0123 2013
A Check if: 1a Consolidated return (attach Form 951) <input type="checkbox"/> 1b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input checked="" type="checkbox"/>		Name TELEXFREE, LLC C/O STEPHEN DARR, BANKRUPTCY TRUSTEE Number, street, and room or suite no. If a P.O. box, see instructions. 125 SUMMER STREET #1805 City or town, state, or province, country and ZIP code or foreign postal code BOSTON, MA 02110		B Employer identification number <div style="background-color: black; width: 100px; height: 20px;"></div> C Date incorporated 07/19/2012 D Total assets (see instructions) \$ 75,922,302.
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change <input type="checkbox"/>				
Income	1a Gross receipts or sales		1a	865,893,525.
	b Returns and allowances		1b	2,092,676.
	c Balance. Subtract line 1b from line 1a		1c	863,800,849.
	2 Cost of goods sold (attach Form 1125-A)		2	2,263,477.
	3 Gross profit. Subtract line 2 from line 1c		3	861,537,372.
	4 Dividends (Schedule C, line 18)		4	
	5 Interest		5	2,732.
	6 Gross rents		6	
	7 Gross royalties		7	
	8 Capital gain net income (attach Schedule D (Form 1120))		8	
	9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		9	
10 Other income (see instructions - attach statement)		10		
11 Total income. Add lines 3 through 10		11	861,540,104.	
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (see instructions - attach Form 1125-E)		12	
	13 Salaries and wages (less employment credits)		13	3,507.
	14 Repairs and maintenance		14	
	15 Bad debts		15	186,344,898.
	16 Rents		16	10,604.
	17 Taxes and licenses		17	26,356.
	18 Interest		18	14,127.
	19 Charitable contributions		19	NONE
	20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		20	86,543.
	21 Depletion		21	
	22 Advertising		22	16,569.
23 Pension, profit sharing, etc., plans		23		
24 Employee benefit programs		24		
25 Domestic production activities deduction (attach Form 8903)		25		
26 Other deductions (attach statement)		26	2,777,023,435.	
27 Total deductions. Add lines 12 through 26		27	2,963,526,039.	
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11		28	-2,101,985,935.	
29a Net operating loss deduction (see instructions)		29a		
b Special deductions (Schedule C, line 20)		29b		
c Add lines 29a and 29b		29c		
Tax, Refundable Credits, and Payments	30 Taxable income. Subtract line 29c from line 28 (see instructions)		30	-2,101,985,935.
	31 Total tax (Schedule J, Part I, line 11)		31	NONE
	32 Total payments and refundable credits (Schedule J, Part II, line 21)		32	15,858,111.
	33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>		33	
	34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed		34	
	35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid		35	15,858,111.
	36 Enter amount from line 35 you want: Credited to 2014 estimated tax <input type="checkbox"/> Refunded <input checked="" type="checkbox"/>		36	15,858,111.
Sign Here Stephen Darr 9/9/16 Trustee Signature of officer Date Title		Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. May the IRS discuss this return with the preparer shown below (see instructions)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
Paid Preparer Use Only Print/Type preparer's name JOSEPH MIDDLETON Firm's name KPMG LLP Firm's address 60 SOUTH STREET BOSTON, MA 02111		Preparer's signature Joseph Middleton Date 9/9/16 Check <input type="checkbox"/> if self-employed PTIN [REDACTED] Firm's EIN [REDACTED] Phone no. 617-988-1000		

TELEXFREE, LLC

Form 1120 (2013)

Page 2

Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		100	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	Total. Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471).			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3.			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4			
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b			

Form 1120 (2013)

TELEXFREE, LLC

Form 1120 (2013)

Page 3

Schedule J Tax Computation and Payment (see instructions)

Part I-Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))		
2	Income tax. Check if a qualified personal service corporation (see instructions)		
3	Alternative minimum tax (attach Form 4626)		
4	Add lines 2 and 3		NONE
5a	Foreign tax credit (attach Form 1118)	5a	NONE
b	Credit from Form 8834 (see instructions)	5b	
c	General business credit (attach Form 3800)	5c	
d	Credit for prior year minimum tax (attach Form 8827)	5d	
e	Bond credits from Form 8912	5e	
6	Total credits. Add lines 5a through 5e	6	
7	Subtract line 6 from line 4	7	NONE
8	Personal holding company tax (attach Schedule PH (Form 1120))	8	
9a	Recapture of investment credit (attach Form 4255)	9a	
b	Recapture of low-income housing credit (attach Form 8611)	9b	
c	Interest due under the look-back method - completed long-term contracts (attach Form 8697)	9c	
d	Interest due under the look-back method - income forecast method (attach Form 8866)	9d	
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
f	Other (see instructions - attach statement)	9f	
10	Total. Add lines 9a through 9f	10	
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31	11	NONE

Part II-Payments and Refundable Credits

12	2012 overpayment credited to 2013	12	
13	2013 estimated tax payments	13	
14	2013 refund applied for on Form 4466	14	()
15	Combine lines 12, 13, and 14	15	
16	Tax deposited with Form 7004	16	15,858,111.
17	Withholding (see instructions)	17	
18	Total payments. Add lines 15, 16, and 17	18	15,858,111.
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4136	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement - see instructions)	19d	
20	Total credits. Add lines 19a through 19d	20	
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32	21	15,858,111.

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. <u>454390</u>		
b	Business activity <u>DIRECT SALES</u>		
c	Product or service <u>COMMUNICATIONS</u>		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation _____		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G).		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G).		X

Form 1120 (2013)

TELEXFREE, LLC

Form 1120 (2013)

Schedule K Other Information *continued* (see instructions)

Page 4

5 At the end of the tax year, did the corporation:

a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

Yes	No
X	

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock
TELEXFREE FINANCIAL, INC		US	100.00

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

Yes	No
	X

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

8 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.

Yes	No
	X

If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.

7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock? For rules of attribution, see section 318. If "Yes," enter:

Yes	No
X	

(i) Percentage owned 30.00 and (ii) Owner's country BR

(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached 1

8 Check this box if the corporation issued publicly offered debt instruments with original issue discount. If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

<input type="checkbox"/>

9 Enter the amount of tax-exempt interest received or accrued during the tax year \$

10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) 2

11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here. If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

<input type="checkbox"/>

12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) \$

13 Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year and its total assets at the end of the tax year less than \$250,000?

Yes	No
	X

If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year \$

14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)? If "Yes," complete and attach Schedule UTP.

Yes	No
	X

15a Did the corporation make any payments in 2013 that would require it to file Form(s) 1099?

X

b If "Yes," did or will the corporation file required Forms 1099?

X

16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?

X

17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 85% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction?

X

18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million?

X

Form 1120 (2013)

TELEXPREE, LLC

Form 1120 (2013)

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash		1,207,048.		37,577,512.
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts	()		()	
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)	STMT 4	12,849,344.		10,792,085.
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)	STMT 4	NONE		27,368,370.
10a	Buildings and other depreciable assets	NONE		86,542.	
b	Less accumulated depreciation	(NONE)	NONE	(9,575.)	76,967.
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach statement)	STMT 4	3,475.		107,368.
15	Total assets		14,059,867.		75,922,302.
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)	STMT 4	5,470,901.		36,836,348.
19	Loans from shareholders		50.		50.
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)	STMT 5	9,829,080.		2,161,474,220.
22	Capital stock: a Preferred stock				
b	Common stock				
23	Additional paid-in capital				
24	Retained earnings - Appropriated (attach statement)				
25	Retained earnings - Unappropriated		-1,240,164.		-2,122,388,316.
26	Adjustments to shareholders' equity (attach statement)				
27	Less cost of treasury stock		()		()
28	Total liabilities and shareholders' equity		14,059,867.		75,922,302.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more - see instructions

1	Net income (loss) per books		7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books			Tax-exempt interest \$	
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):				
5	Expenses recorded on books this year not deducted on this return (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
a	Depreciation \$			a Depreciation \$	
b	Charitable contributions \$			b Charitable contributions \$	
c	Travel and entertainment \$				
6	Add lines 1 through 5		9	Add lines 7 and 8	
			10	Income (page 1, line 28) - line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	-1,240,164.	5	Distributions: a Cash	
2	Net income (loss) per books	-2,121,148,152.		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize):	
4	Add lines 1, 2, and 3	-2,122,388,316.	7	Add lines 5 and 6	
			8	Balance at end of year (line 4 less line 7)	-2,122,388,316.

Form **4626**

Alternative Minimum Tax - Corporations

OMB No. 1545-0175

Department of the Treasury
Internal Revenue Service

► Attach to the corporation's tax return.

► Information about Form 4626 and its separate instructions is at www.irs.gov/form4626.

2013

Name **TELEXPREE, LLC**

Employer identification number

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Note: See the instructions to find out if the corporation is a small corporation exempt from the alternative minimum tax (AMT) under section 55(e).

1	Taxable income or (loss) before net operating loss deduction	1	-2101985935.
2	Adjustments and preferences:		
a	Depreciation of post-1986 property	2a	
b	Amortization of certified pollution control facilities	2b	
c	Amortization of mining exploration and development costs	2c	
d	Amortization of circulation expenditures (personal holding companies only)	2d	
e	Adjusted gain or loss	2e	
f	Long-term contracts	2f	
g	Merchant marine capital construction funds	2g	
h	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h	
i	Tax shelter farm activities (personal service corporations only)	2i	
j	Passive activities (closely held corporations and personal service corporations only)	2j	
k	Loss limitations	2k	
l	Depletion	2l	
m	Tax-exempt interest income from specified private activity bonds	2m	
n	Intangible drilling costs	2n	
o	Other adjustments and preferences	2o	NONE
3	Pre-adjustment alternative minimum taxable income (AMTI). Combine lines 1 through 2o	3	-2101985935.
4	Adjusted current earnings (ACE) adjustment:		
a	ACE from line 10 of the ACE worksheet in the instructions.	4a	-2101985935.
b	Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference as a negative amount (see instructions)	4b	
c	Multiply line 4b by 75% (.75). Enter the result as a positive amount	4c	
d	Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see instructions). Note: You must enter an amount on line 4d (even if line 4b is positive)	4d	
e	ACE adjustment.		
	• If line 4b is zero or more, enter the amount from line 4c		
	• If line 4b is less than zero, enter the smaller of line 4c or line 4d as a negative amount	4e	
5	Combine lines 3 and 4e. If zero or less, stop here; the corporation does not owe any AMT.	5	-2101985935.
6	Alternative tax net operating loss deduction (see instructions)	6	
7	Alternative minimum taxable income. Subtract line 6 from line 5. If the corporation held a residual interest in a REMIC, see instructions.	7	-2101985935.
8	Exemption phase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):		
a	Subtract \$150,000 from line 7 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-.	8a	NONE
b	Multiply line 8a by 25% (.25).	8b	NONE
c	Exemption. Subtract line 8b from \$40,000 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-.	8c	40,000.
9	Subtract line 8c from line 7. If zero or less, enter -0-.	9	NONE
10	Multiply line 9 by 20% (.20)	10	NONE
11	Alternative minimum tax foreign tax credit (AMTFTC) (see instructions)	11	
12	Tentative minimum tax. Subtract line 11 from line 10	12	NONE
13	Regular tax liability before applying all credits except the foreign tax credit	13	
14	Alternative minimum tax. Subtract line 13 from line 12. If zero or less, enter -0-. Enter here and on Form 1120, Schedule J, line 3, or the appropriate line of the corporation's income tax return	14	NONE

For Paperwork Reduction Act Notice, see separate instructions.

Form 4626 (2013)

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TELEXFREE, LLC

Adjusted Current Earnings (ACE) Worksheet

Keep for Your Records

See ACE Worksheet Instructions.

1 Pre-adjustment AMTI. Enter the amount from line 3 of Form 4626		1	-2101985935
2 ACE depreciation adjustment:			
a AMT depreciation	2a	NONE	
b ACE depreciation:			
(1) Post-1983 property	2b(1)	NONE	
(2) Post-1989, pre-1994 property	2b(2)		
(3) Pre-1990 MACRS property	2b(3)		
(4) Pre-1990 original ACRS property	2b(4)		
(5) Property described in sections 168(f)(1) through (4)	2b(5)		
(6) Other property	2b(6)		
(7) Total ACE depreciation. Add lines 2b(1) through 2b(6)	2b(7)	NONE	
c ACE depreciation adjustment. Subtract line 2b(7) from line 2a		2c	NONE
3 Inclusion in ACE of items included in earnings and profits (E&P):			
a Tax-exempt interest income	3a		
b Death benefits from life insurance contracts	3b		
c All other distributions from life insurance contracts (including surrenders)	3c		
d Inside buildup of undistributed income in life insurance contracts	3d		
e Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial list)	3e		
f Total increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e		3f	
4 Disallowance of items not deductible from E&P:			
a Certain dividends received	4a		
b Dividends paid on certain preferred stock of public utilities that are deductible under section 247	4b		
c Dividends paid to an ESOP that are deductible under section 404(k)	4c		
d Nonpatronage dividends that are paid and deductible under section 1382(c)	4d		
e Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)	4e		
f Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e		4f	
5 Other adjustments based on rules for figuring E&P:			
a Intangible drilling costs	5a		
b Circulation expenditures	5b		
c Organizational expenditures	5c		
d LIFO inventory adjustments	5d		
e Installment sales	5e		
f Total other E&P adjustments. Combine lines 5a through 5e		5f	
6 Disallowance of loss on exchange of debt pools		6	
7 Acquisition expenses of life insurance companies for qualified foreign contracts		7	
8 Depletion		8	
9 Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property		9	
10 Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 4a of Form 4626		10	-2101985935

**SCHEDULE B
(Form 1120)**

(Rev. December 2009)
Department of the Treasury
Internal Revenue Service

Additional Information for Schedule M-3 Filers

▶ Attach to Form 1120.
▶ See instructions on page 2.

OMB No. 1545-0123

Name **TELEXFREE, LLC**

Employer identification number (EIN) **[REDACTED]**

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

- | | Yes | No |
|---|-----|----|
| 1 Do the amounts reported on Schedule M-3 (Form 1120), Part II, lines 9 or 10, column (d), reflect allocations to the corporation from a partnership of income, gain, loss, deduction, or credit that are disproportionate to this corporation's capital contribution to the partnership or its ratio for sharing other items of the partnership? | | X |
| 2 At any time during the tax year, did the corporation sell, exchange, or transfer any interest in an intangible asset to a related person as defined in section 267(b)? | | X |
| 3 At any time during the tax year, did the corporation acquire any interest in an intangible asset from a related person as defined in section 267(b)? | | X |
| 4a During the tax year, did the corporation enter into a cost-sharing arrangement with any related foreign party on whose behalf the corporation did not file Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations? | | X |
| b At any time during the tax year, was the corporation a participant in a cost-sharing arrangement with any related foreign party on whose behalf the corporation did not file Form 5471? | | X |
| 5 At any time during the tax year, did the corporation make any change in accounting principle for financial accounting purposes? See instructions for the definition of change in accounting principle | | X |
| 6 At any time during the tax year, did the corporation make any change in a method of accounting for U.S. income tax purposes? | | X |
| 7 At any time during the tax year, did the corporation own any voluntary employees' beneficiary association (VEBA) trusts that were used to hold funds designated for employee benefits? | | X |
| 8 At any time during the tax year, did the corporation use an allocation method for indirect costs capitalized to self-constructed assets that varied from its financial method of accounting? | | X |
| 9 At any time during the tax year, did the corporation treat for tax purposes indirect costs, as defined in Regulations sections 1.263A-1(e)(3)(ii)(F), (G), and (H), as mixed-service costs, as defined in Regulations section 1.263A-1(e)(4)(ii)(C)? | | X |
| 10 Did the corporation, under section 118 or 362(c) and the related regulations, take a return filing position characterizing any amount as a contribution to the capital of the corporation during the tax year by any non-shareholders? Amounts so characterized may include, without limitation, incentives, inducements, money, and property. | | X |

For Paperwork Reduction Act Notice, see the Instructions for Form 1120.

Schedule B (Form 1120) (Rev. 12-2009)

SCHEDULE M-3
(Form 1120)

Department of the Treasury
Internal Revenue Service

Net Income (Loss) Reconciliation for Corporations
With Total Assets of \$10 Million or More

▶ Attach to Form 1120 or 1120-C. ▶ Information about Schedule M-3 (Form 1120) and its separate instructions is available at www.irs.gov/form1120.

OMB No 1545-0123

2013

Name of corporation (common parent, if consolidated return)

TELEFREE, LLC
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Employer identification number

Check applicable box(es):

(1) ☒ Non-consolidated return
(3) ☐ Mixed 1120/L/PC group

(2) ☐ Consolidated return (Form 1120 only)
(4) ☐ Dormant subsidiaries schedule attached

Part I Financial Information and Net Income (Loss) Reconciliation (see instructions)

1 a Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?

☐ Yes. Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☒ No. Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.

b Did the corporation prepare a certified audited non-tax-basis income statement for that period?

☐ Yes. Skip line 1c and complete lines 2a through 11 with respect to that income statement.
☒ No. Go to line 1c.

c Did the corporation prepare a non-tax-basis income statement for that period?

☒ Yes. Complete lines 2a through 11 with respect to that income statement.
☐ No. Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4a.

2 a Enter the income statement period: Beginning 01/01/2013 Ending 12/31/2013

b Has the corporation's income statement been restated for the income statement period on line 2a?

☐ Yes. (If "Yes," attach an explanation and the amount of each item restated.)
☒ No.

c Has the corporation's income statement been restated for any of the five income statement periods preceding the period on line 2a?

☒ Yes. (If "Yes," attach an explanation and the amount of each item restated.)
☐ No.

3 a Is any of the corporation's voting common stock publicly traded?

☐ Yes.
☒ No. If "No," go to line 4a.

b Enter the symbol of the corporation's primary U.S. publicly traded voting common stock

c Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock

4 a Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1

4a -2,121,148,152.

b Indicate accounting standard used for line 4a (see instructions):

(1) ☒ GAAP (2) ☐ IFRS (3) ☐ Statutory (4) ☐ Tax-basis (5) ☐ Other (specify)

5 a Net income from nonincludible foreign entities (attach statement)

5a ()

b Net loss from nonincludible foreign entities (attach statement and enter as a positive amount)

5b ()

6 a Net income from nonincludible U.S. entities (attach statement)

6a ()

b Net loss from nonincludible U.S. entities (attach statement and enter as a positive amount)

6b ()

7 a Net income (loss) of other includible foreign disregarded entities (attach statement)

7a ()

b Net income (loss) of other includible U.S. disregarded entities (attach statement)

7b ()

c Net income (loss) of other includible entities (attach statement)

7c ()

8 Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement)

8 ()

9 Adjustment to reconcile income statement period to tax year (attach statement)

9 ()

10 a Intercompany dividend adjustments to reconcile to line 11 (attach statement)

10a ()

b Other statutory accounting adjustments to reconcile to line 11 (attach statement)

10b ()

c Other adjustments to reconcile to amount on line 11 (attach statement)

10c ()

11 Net income (loss) per income statement of includible corporations. Combine lines 4 through 10

11 -2,121,148,152.

Note. Part I, line 11, must equal the amount on Part II, line 30, column (a), and Schedule M-2, line 2.

12 Enter the total amount (not just the corporation's share) of the assets and liabilities of all entities included or removed on the following lines.

a Included on Part I, line 4

b Removed on Part I, line 5

c Removed on Part I, line 6

d Included on Part I, line 7

Total Assets	Total Liabilities
75,922,302.	2,198,310,618.

For Paperwork Reduction Act Notice, see the Instructions for Form 1120.

Schedule M-3 (Form 1120) 2013

Schedule M-3 (Form 1120) 2013

Page 2

Name of corporation (common parent, if consolidated return)

TELEXFREE, LLC
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Employer identification number

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return (see instructions)

Income (Loss) Items (Attach statements for lines 1 through 11)	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
1 Income (loss) from equity method foreign corporations				
2 Gross foreign dividends not previously taxed				
3 Subpart F, QEF, and similar income inclusions				
4 Section 78 gross-up				
5 Gross foreign distributions previously taxed				
6 Income (loss) from equity method U.S. corporations				
7 U.S. dividends not eliminated in tax consolidation				
8 Minority interest for includible corporations				
9 Income (loss) from U.S. partnerships				
10 Income (loss) from foreign partnerships				
11 Income (loss) from other pass-through entities				
12 Items relating to reportable transactions (attach statement)				
13 Interest income (attach Form 9916-A)				
14 Total accrual to cash adjustment				
15 Hedging transactions				
16 Mark-to-market income (loss)				
17 Cost of goods sold (attach Form 9916-A)				
18 Sale versus lease (for sellers and/or lessors)				
19 Section 481(a) adjustments				
20 Unearned/delayed revenue				
21 Income recognition from long-term contracts				
22 Original issue discount and other imputed interest				
23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities				
b Gross capital gains from Schedule D, excluding amounts from pass-through entities				
c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
e Abandonment losses				
f Worthless stock losses (attach statement)				
g Other gain/loss on disposition of assets other than inventory				
24 Capital loss limitation and carryforward used				
25 Other income (loss) items with differences (attach statement)				
26 Total income (loss) items. Combine lines 1 through 25				
27 Total expense/deduction items (from Part III, line 38)	-19,250,202.	-76,968.	19,239,185.	-87,985.
28 Other items with no differences	-2,101,897,950.	STMT 7		-2,101,897,950.
29a Mixed groups, see instructions. All others, combine lines 26 through 28	-2,121,148,152.	-76,968.	19,239,185.	-2,101,985,935.
b PC insurance subgroup reconciliation totals				
c Life insurance subgroup reconciliation totals				
30 Reconciliation totals. Combine lines 29a through 29c	-2,121,148,152.	-76,968.	19,239,185.	-2,101,985,935.

Note. Line 30, column (a), must equal the amount on Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

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Schedule M-3 (Form 1120) 2013

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Schedule M-3 (Form 1120) 2013

Page 3

Name of corporation (common parent, if consolidated return)

TELEXFREE, LLC
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Employer identification number

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group
Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

Part III Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return - Expense/Deduction Items (see instructions)

Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 U.S. current income tax expense	18,994,860.		-18,994,860.	
2 U.S. deferred income tax expense				
3 State and local current income tax expense				
4 State and local deferred income tax expense				
5 Foreign current income tax expense (other than foreign withholding taxes)				
6 Foreign deferred income tax expense				
7 Foreign withholding taxes				
8 Interest expense (attach Form 8518-A)				
9 Stock option expense				
10 Other equity-based compensation				
11 Meals and entertainment	2,884.		-1,442.	1,442.
12 Fines and penalties	186,720.		-186,720.	
13 Judgments, damages, awards, and similar costs				
14 Parachute payments				
15 Compensation with section 162(m) limitation				
16 Pension and profit-sharing				
17 Other post-retirement benefits				
18 Deferred compensation				
19 Charitable contribution of cash and tangible property	7,500.		-7,500.	
20 Charitable contribution of intangible property				
21 Charitable contribution limitation/carryforward				
22 Domestic production activities deduction				
23 Current year acquisition or reorganization investment banking fees				
24 Current year acquisition or reorganization legal and accounting fees				
25 Current year acquisition/reorganization other costs				
26 Amortization/impairment of goodwill				
27 Amortization of acquisition, reorganization, and start-up costs				
28 Other amortization or impairment write-offs				
29 Reserved				
30 Depletion				
31 Depreciation	9,575.	76,968.		86,543.
32 Bad debt expense				
33 Corporate owned life insurance premiums				
34 Purchase versus lease (for purchasers and/or lessors)				
35 Research and development costs				
36 Section 118 exclusion (attach statement)				
37 Other expense/deduction items with differences (attach statement)	48,663.		-48,663.	
38 Total expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive	19,250,202.	76,968.	-19,239,185.	87,985.

Form **1125-A**

(Rev. December 2012)

Department of the Treasury
Internal Revenue Service

Cost of Goods Sold

► Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.
► Information about Form 1125-A and its instructions is at www.irs.gov/form1125a.

OMB No. 1545-2225

Name TELEFREE, LLC		Employer identification number
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		
1	Inventory at beginning of year	1
2	Purchases	2
3	Cost of labor	3
4	Additional section 263A costs (attach schedule)	4
5	Other costs (attach schedule) SEE STATEMENT 9	5
6	Total. Add lines 1 through 5	6
7	Inventory at end of year	7
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8
9a	Check all methods used for valuing closing inventory:	
	(i) <input type="checkbox"/> Cost	
	(ii) <input type="checkbox"/> Lower of cost or market	
	(iii) <input type="checkbox"/> Other (Specify method used and attach explanation.) ►	
b	Check if there was a writedown of subnormal goods	<input type="checkbox"/>
c	Check if the LIFO inventory method was adopted this tax year for any goods (If checked, attach Form 970)	<input type="checkbox"/>
d	If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO	9d
e	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes <input type="checkbox"/> No

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (defined below), you can adopt or change your accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method).

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, you can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See the instructions for lines 2 and 7.

For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on adopting or changing to this method of accounting, see Form 3115, Application for Change in Accounting Method, and its instructions.

Qualifying taxpayer. A qualifying taxpayer is a taxpayer that, (a) for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3 prior tax years and (b) its business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2001-10, 2001-2 I.R.B. 272.

Qualifying small business taxpayer. A qualifying small business taxpayer is a taxpayer that, (a) for each prior tax year

ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years, (b) whose principal business activity is not an ineligible activity, and (c) whose business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2002-28, 2002-18, I.R.B. 815.

Uniform capitalization rules. The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

Form **4562**

Depreciation and Amortization
(Including Information on Listed Property)

OMB No. 1545-0172

2013

Department of the Treasury
Internal Revenue Service (999)

▶ See separate instructions.

▶ Attach to your tax return.

Attachment
Sequence No. **179**

Name(s) shown on return

TELEXFREE, LLC

Identifying number

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Business or activity to which this form relates

GENERAL DEPRECIATION AND AMORTIZATION

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	500,000.
2	Total cost of section 179 property placed in service (see instructions)	2	86,543.
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000.
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	500,000.

6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
	SEE DETAIL		86,543.

7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	86,543.
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	86,543.
10	Carryover of disallowed deduction from line 13 of your 2012 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	500,000.
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	86,543.
13	Carryover of disallowed deduction to 2014. Add lines 9 and 10, less line 12	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2013	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		

Section B - Assets Placed In Service During 2013 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only - see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C - Assets Placed In Service During 2013 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instructions	22	86,543.
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

JSA For Paperwork Reduction Act Notice, see separate instructions.
3X2300 2.000

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Form **4562** (2013)

20

TELEFREE, LLC
Form 4562 (2013)

Part V Listed Property (Include automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A - Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed?				Yes	No	24b If "Yes," is the evidence written?				Yes	No
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/Investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost			
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)									25		
26 Property used more than 50% in a qualified business use:											
		%									
		%									
		%									
27 Property used 50% or less in a qualified business use:											
		%				S/L -					
		%				S/L -					
		%				S/L -					
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1.									28		
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1.									29		

Section B - Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1	(b) Vehicle 2	(c) Vehicle 3	(d) Vehicle 4	(e) Vehicle 5	(f) Vehicle 6
30 Total business/investment miles driven during the year (do not include commuting miles).						
31 Total commuting miles driven during the year.						
32 Total other personal (noncommuting) miles driven.						
33 Total miles driven during the year. Add lines 30 through 32.						
34 Was the vehicle available for personal use during off-duty hours?	Yes	No	Yes	No	Yes	No
35 Was the vehicle used primarily by a more than 5% owner or related person?						
36 Is another vehicle available for personal use?						

Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	Yes	No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners.		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.)		

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2013 tax year (see instructions):					
43 Amortization of costs that began before your 2013 tax year					43
44 Total. Add amounts in column (f). See the instructions for where to report.					44

JSA

3X2310 2.000

Form 4562 (2013)

1472KP 1592

2013 Depreciation

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TELEXFREE, LLC



FORM 1120, PAGE 1 DETAIL

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE
PAYROLL TAX EXPENSE

23,404.
2,952.

TOTAL

26,356.



FORM 1120, PAGE 1 DETAIL

LINE 19 - CONTRIBUTIONS DEDUCTION

1. TAXABLE INCOME (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-2,101,985,935.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. TAXABLE INCOME WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-2,101,985,935.
5. CONTRIBUTION DEDUCTION LIMITATION (TAXABLE INCOME X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

LINE 19 - 5 YEAR CONTRIBUTION CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CONVERTED TO NOL CARRYOVER	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE		7,500.
TOTAL	7,500.	NONE		7,500.

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 26 - SUMMARY OF TRAVEL, MEALS AND ENTERTAINMENT

GROSS MEALS AND ENTERTAINMENT	2,884.
LESS 50% LIMITATION TO SCH M-1	1,442.
NET MEALS & ENTERTAINMENT	1,442.
100% ALLOWABLE TRAVEL AND ENTERTAINMENT	135,569.
TOTAL	137,011.

LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT	137,011.
BANK CHARGES	255,369.
COMMISSIONS	622,588,034.
CREDIT CARD FEES	16.
EVENTS	109,455.
FILING AND REGISTERED AGENT FEES	1,579.
LEGAL AND PROFESSIONAL FEES	431,347.
MISCELLANEOUS	33,150.
OFFICE EXPENSES	13,408.
PAYROLL REIMBURSEMENT	58,006.
PAYROLL FEES	545.
POSTAGE	114.
PERSONNEL	18,750.
SALES AND PROMOTION EXPENSES	110,894.
SMALL TOOLS AND EQUIPMENT	728.
SUPPLIES	1,956.
MERCHANT FEES	1,038,788.
PRODUCT DEVELOPMENT	6,000.
SOFTWARE DEVELOPMENT	81,288.
CONTRACT LABOR	50,525.
INFORMATION TECHNOLOGY	440,682.
WEBSITE	650.
ADVERTISING CREDITS EXPENSE	2,151,645,140.
TOTAL	2,777,023,435.

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 -
OTHER CURRENT ASSETS

	BEGINNING	ENDING
PROPERTY RESERVE	278,374.	4,468,411.
LOAN TO TELEXFREE, INC.	701,525.	NONE
LOAN TO TELEXELECTRIC, LLLP	NONE	2,022,329.
LOAN TO TELEXFREE FINANCIAL, INC	NONE	3,800,475.
LOAN TO TELEXMOBILE	NONE	500,870.
RECEIVABLE FROM YMPACTUS COMERCIAL	11,869,445.	NONE
TOTAL	12,849,344.	10,792,085.

SCH L, LINE 9 - OTHER INVESTMENTS

FIDELITY INVESTMENT	NONE	18,068,961.
MIDDLESEX SAVINGS	NONE	2,000,000.
WADDELL AND REED	NONE	7,299,409.
TOTAL	NONE	27,368,370.

SCH L, LINE 14 - OTHER ASSETS

SECURITY DEPOSITS	NONE	5,944.
SOFTWARE	NONE	97,949.
ORGANIZATIONAL COSTS	3,475.	3,475.
TOTAL	3,475.	107,368.

SCH L, LINE 18 -
OTHER CURRENT LIABILITIES

ACCRUED FEDERAL INCOME TAX	4,624,801.	19,964,030.
ACCRUED STATE TAXES	843,429.	3,812,939.
TELECOM TAXES PAYABLE	NONE	23,404.
COMMISSIONS PAYABLE	NONE	7,642,550.
LOAN FROM TELEXFREE, INC.	NONE	5,390,753.
PAYABLE BRAZILIAN HELP, INC.	2,671.	2,672.
TOTAL	5,470,901.	36,836,348.

TELEXFREE, LLC



FORM 1120, PAGE 5 DETAIL

SCH L, LINE 21 - OTHER LIABILITIES

ACCRUED ADVERTISING CREDITS

TOTAL

BEGINNING	ENDING
----- 9,829,080.	----- 2,161,474,220.
----- 9,829,080.	----- 2,161,474,220.
=====	=====



TELEXFREE, LLC

FORM 4626 DETAIL

LINE 20 - OTHER ADJUSTMENTS - CONTRIBUTIONS DEDUCTION

1. AMTI (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-2,101,985,935.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. AMTI WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-2,101,985,935.
5. CONTRIBUTION DEDUCTION LIMITATION (AMTI X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

5 YEAR CONTRIBUTIONS CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL	7,500.	NONE	7,500.

LINE 20 - CONTRIBUTIONS ADJUSTMENT

REGULAR CONTRIBUTIONS	NONE
AMT CONTRIBUTIONS	NONE
CONTRIBUTION ADJUSTMENT	NONE

TELEXFREE, LLC



SCHEDULE M-3, PART II DETAIL

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LINE 28 - OTHER ITEMS WITH NO DIFFERENCES

OTHER INCOME/EXPENSE ITEMS WITH NO DIFFERENCES

-2,101,897,950.

TOTAL

-2,101,897,950.
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TELEXFREE, LLC

SCHEDULE M-3, PART III DETAIL

LINE 37 - OTHER EXPENSE/DEDUCTION ITEMS WITH DIFFERENCES

DESCRIPTION	EXPENSE PER INCOME STMT	TEMPORARY DIFFERENCE	PERMANENT DIFFERENCE	DEDUCTION PER TAX RETURN
LOSS ON INVESTMENT	48,663.		-48,663.	
TOTAL	48,663.		-48,663.	

1472KP 1592

31

STATEMENT 8



FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

DIRECT INBOUND DIAL & ACCESS NUMBERS
TELECOM & DATABASE NETWORK EXPENSE
TERMINATION

15,256.
397,322.
1,850,899.

TOTAL

2,263,477.



1120 Form Department of the Treasury Internal Revenue Service		U.S. Corporation Income Tax Return For calendar year 2014 or tax year beginning _____, ending _____ Information about Form 1120 and its separate instructions is at www.irs.gov/form1120 .				OMB No. 1545-0123 2014	
A Check if: 1a Consolidated return (attach Form 951) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input checked="" type="checkbox"/>		NAME TELEFREE, LLC C/O STEPHEN DARR, BANKRUPTCY TRUSTEE Number, street, and room or suite no. If a P.O. box, see instructions. 125 SUMMER STREET #1805 City or town, state, or province, country and ZIP or foreign postal code BOSTON, MA 02110		B Employer identification number [REDACTED] C Date incorporated 07/19/2012 D Total assets (see instructions) \$ NONE			
E Check if: (1) Initial return (2) Final return (3) Name change (4) Address change							
Income 1a Gross receipts or sales 1a 163,113,395. b Returns and allowances 1b c Balance. Subtract line 1b from line 1a 1c 163,113,395. 2 Cost of goods sold (attach Form 1125-A) 2 1,563,042. 3 Gross profit. Subtract line 2 from line 1c 3 161,550,353. 4 Dividends (Schedule C, line 19) 4 5 Interest 5 6 Gross rents 6 7 Gross royalties 7 8 Capital gain net income (attach Schedule D (Form 1120)) 8 9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) 9 10 Other income (see instructions - attach statement) 10 11 Total income. Add lines 3 through 10 11 161,550,353.		<div style="border: 2px solid black; padding: 10px; background-color: yellow;"> Exhibit 4 </div>					
Deductions (See instructions for limitations on deductions.) 12 Compensation of officers (see instructions - attach Form 1125-E) 12 13 Salaries and wages (less employment credits) 13 19,170. 14 Repairs and maintenance 14 990. 15 Bad debts 15 16 Rents 16 30,763. 17 Taxes and licenses 17 61,291. 18 Interest SEE. STATEMENT. 1. 18 19 Charitable contributions SEE. STATEMENT. 2. 19 NONE 20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) 20 21 Depletion 21 22 Advertising 22 17,721. 23 Pension, profit-sharing, etc., plans 23 24 Employee benefit programs 24 25 Domestic production activities deduction (attach Form 8903) 25 26 Other deductions (attach statement) SEE. STATEMENT. 3. 26 2,450,046,128. 27 Total deductions. Add lines 12 through 26 27 2,450,176,063. 28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 28 -2,288,625,710. 29a Net operating loss deduction (see instructions) 29a b Special deductions (Schedule C, line 20) 29b c Add lines 29a and 29b 29c							
Tax, Refundable Credits, and Payments 30 Taxable income. Subtract line 29c from line 28 (see instructions) 30 -2,288,625,710. 31 Total tax (Schedule J, Part I, line 11) 31 NONE 32 Total payments and refundable credits (Schedule J, Part II, line 21) 32 33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/> 33 34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed 34 NONE 35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid 35 36 Enter amount from line 35 you want: Credited to 2015 estimated tax <input checked="" type="checkbox"/> Refunded <input type="checkbox"/> 36							
Sign Here Signature of officer _____ Date _____ Title _____		Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. May the IRS discuss this return with the preparer shown below (see instructions)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					
Paid Preparer Use Only Print/Type preparer's name JOSEPH MIDDLETON Firm's name KPMG LLP Firm's address 60 SOUTH STREET BOSTON, MA 02111		Preparer's signature _____ Date 6/20/2017 Check <input type="checkbox"/> if self-employed <input type="checkbox"/> PTIN [REDACTED] Firm's EIN [REDACTED] Phone no. 617-988-1000					

For Paperwork Reduction Act Notice, see separate instructions.

Form 1120 (2014)

TELEXFREE, LLC
Form 1120 (2014)

Page 2

Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities . .		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities . . .		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs . . .		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs . . .		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	Total. Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12 . .			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471). . . .			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4 . . ▶			
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Form 1120 (2014)

TELEXPREE, LLC
Form 1120 (2014)

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Schedule J Tax Computation and Payment (see instructions)**Part I-Tax Computation**

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)).		
2	Income tax. Check if a qualified personal service corporation (see instructions).		2
3	Alternative minimum tax (attach Form 4626)		3
4	Add lines 2 and 3		4
5a	Foreign tax credit (attach Form 1118)	5a	
b	Credit from Form 8834 (see instructions)	5b	
c	General business credit (attach Form 3800)	5c	
d	Credit for prior year minimum tax (attach Form 8827)	5d	
e	Bond credits from Form 8912	5e	
6	Total credits. Add lines 5a through 5e		6
7	Subtract line 6 from line 4		7
8	Personal holding company tax (attach Schedule PH (Form 1120))		8
9a	Recapture of investment credit (attach Form 4255)	9a	
b	Recapture of low-income housing credit (attach Form 8611)	9b	
c	Interest due under the look-back method - completed long-term contracts (attach Form 8697)	9c	
d	Interest due under the look-back method - income forecast method (attach Form 8866)	9d	
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
f	Other (see instructions - attach statement)	9f	
10	Total. Add lines 9a through 9f		10
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31		11

Part II-Payments and Refundable Credits

12	2013 overpayment credited to 2014		12
13	2014 estimated tax payments		13
14	2014 refund applied for on Form 4466		14
15	Combine lines 12, 13, and 14		15
16	Tax deposited with Form 7004		16
17	Withholding (see instructions)		17
18	Total payments. Add lines 15, 16, and 17		18
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4136	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement - see instructions)	19d	
20	Total credits. Add lines 19a through 19d		20
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32		21

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. <u>454390</u>		
b	Business activity <u>DIRECT SALES</u>		
c	Product or service <u>COMMUNICATIONS</u>		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidary controlled group? If "Yes," enter name and EIN of the parent corporation _____		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)	X	

Form 1120 (2014)

TELEXFREE, LLC

Form 1120 (2014)

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Schedule K Other Information continued (see instructions)

	Yes	No	
5 At the end of the tax year, did the corporation:			
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions.	X		
If "Yes," complete (i) through (iv) below.			
(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock
TELEXFREE FINANCIAL, INC		US	100.000
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions.			
If "Yes," complete (i) through (iv) below.			
(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital
6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)			
If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.			
If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.			
7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock?			
For rules of attribution, see section 318. If "Yes," enter:			
(i) Percentage owned ▶ 30.000 and (ii) Owner's country ▶ BR			
(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶			
8 Check this box if the corporation issued publicly offered debt instruments with original issue discount			
If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.			
9 Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$			
10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ 2			
11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here			
If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.			
12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ \$ 289,737,653 STATEMENT 1			
13 Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year and its total assets at the end of the tax year less than \$250,000?			
If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year ▶ \$			
14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)?			
If "Yes," complete and attach Schedule UTP.			
15a Did the corporation make any payments in 2014 that would require it to file Form(s) 1099?			
b If "Yes," did or will the corporation file required Forms 1099?			
16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?			
17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction?			
18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million?			

Form 1120 (2014)

TELEXFREE, LLC

Form 1120 (2014)

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Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1 Cash			37,577,512.		NONE
2a Trade notes and accounts receivable					
b Less allowance for bad debts					
3 Inventories					
4 U.S. government obligations					
5 Tax-exempt securities (see instructions)					
6 Other current assets (attach statement)	STMT 4		10,792,085.		NONE
7 Loans to shareholders					
8 Mortgage and real estate loans					
9 Other investments (attach statement)	STMT 4		27,368,370.		NONE
10a Buildings and other depreciable assets		86,542.		NONE	
b Less accumulated depreciation		(9,575.)	76,967.	(NONE)	NONE
11a Depletable assets					
b Less accumulated depletion					
12 Land (net of any amortization)					
13a Intangible assets (amortizable only)					
b Less accumulated amortization					
14 Other assets (attach statement)	STMT 4		107,368.		NONE
15 Total assets			75,922,302.		NONE
Liabilities and Shareholders' Equity					
16 Accounts payable					
17 Mortgages, notes, bonds payable in less than 1 year					
18 Other current liabilities (attach statement)	STMT 4		36,836,348.		NONE
19 Loans from shareholders			50.		NONE
20 Mortgages, notes, bonds payable in 1 year or more					
21 Other liabilities (attach statement)	STMT 5		2,161,474,220.		NONE
22 Capital stock: a Preferred stock					
b Common stock					
23 Additional paid-in capital					
24 Retained earnings - Appropriated (attach statement)					
25 Retained earnings - Unappropriated			-2,122,388,316.		NONE
26 Adjustments to shareholders' equity (attach statement)					
27 Less cost of treasury stock					
28 Total liabilities and shareholders' equity			75,922,302.		NONE

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: The corporation may be required to file Schedule M-3 (see instructions).

1 Net income (loss) per books		7 Income recorded on books this year not included on this return (itemize): Tax-exempt interest \$	
2 Federal income tax per books			
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize):		8 Deductions on this return not charged against book income this year (itemize): a Depreciation \$ b Charitable contributions \$	
5 Expenses recorded on books this year not deducted on this return (itemize): a Depreciation \$ b Charitable contributions \$ c Travel and entertainment \$			
6 Add lines 1 through 5		9 Add lines 7 and 8	
		10 Income (page 1, line 28) - line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1 Balance at beginning of year	-2,122,388,316.	5 Distributions: a Cash	
2 Net income (loss) per books	-2,305,405,453.	b Stock	
3 Other increases (itemize):		c Property	
SEE STATEMENT 6	4,629,811,265.	6 Other decreases (itemize):	
4 Add lines 1, 2, and 3	NONE	7 Add lines 5 and 6	
		8 Balance at end of year (line 4 less line 7)	NONE

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Form 1120 (2014)

**SCHEDULE G
(Form 1120)**

(Rev. December 2011)
Department of the Treasury
Internal Revenue Service

**Information on Certain Persons Owning the
Corporation's Voting Stock**

▶ Attach to Form 1120.
▶ See instructions on page 2.

OMB No. 1545-0123

Name

Employer identification number (EIN)

TELEXFREE, LLC

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Part I **Certain Entities Owning the Corporation's Voting Stock.** (Form 1120, Schedule K, Question 4a). Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock

Part II **Certain Individuals and Estates Owning the Corporation's Voting Stock.** (Form 1120, Schedule K, Question 4b). Complete columns (i) through (iv) below for any individual or estate that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock
CARLOS WANZELER		US	50.000
JAMES MERRILL		US	50.000

Form **4626**

Alternative Minimum Tax - Corporations

OMB No. 1545-0123

Department of the Treasury
Internal Revenue Service

▶ Attach to the corporation's tax return.

▶ Information about Form 4626 and its separate instructions is at www.irs.gov/form4626.

2014

Name **TELEXFREE, LLC** Employer identification number **[REDACTED]**
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Note: See the instructions to find out if the corporation is a small corporation exempt from the alternative minimum tax (AMT) under section 55(e).

1	Taxable income or (loss) before net operating loss deduction	1	-2288625710.
2	Adjustments and preferences:		
a	Depreciation of post-1986 property	2a	
b	Amortization of certified pollution control facilities	2b	
c	Amortization of mining exploration and development costs	2c	
d	Amortization of circulation expenditures (personal holding companies only)	2d	
e	Adjusted gain or loss	2e	
f	Long-term contracts	2f	
g	Merchant marine capital construction funds	2g	
h	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h	
i	Tax shelter farm activities (personal service corporations only)	2i	
j	Passive activities (closely held corporations and personal service corporations only)	2j	
k	Loss limitations	2k	
l	Depletion	2l	
m	Tax-exempt interest income from specified private activity bonds	2m	
n	Intangible drilling costs	2n	
o	Other adjustments and preferences	2o	NONE
3	Pre-adjustment alternative minimum taxable income (AMTI). Combine lines 1 through 2o	3	-2288625710.
4	Adjusted current earnings (ACE) adjustment:		
a	ACE from line 10 of the ACE worksheet in the instructions	4a	-2288625710.
b	Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference as a negative amount (see instructions)	4b	
c	Multiply line 4b by 75% (.75). Enter the result as a positive amount	4c	
d	Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see instructions). Note: You must enter an amount on line 4d (even if line 4b is positive)	4d	
e	ACE adjustment. • If line 4b is zero or more, enter the amount from line 4c • If line 4b is less than zero, enter the smaller of line 4c or line 4d as a negative amount	4e	
5	Combine lines 3 and 4e. If zero or less, stop here; the corporation does not owe any AMT.	5	-2288625710.
6	Alternative tax net operating loss deduction (see instructions)	6	
7	Alternative minimum taxable income. Subtract line 6 from line 5. If the corporation held a residual interest in a REMIC, see instructions.	7	-2288625710.
8	Exemption phase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):		
a	Subtract \$150,000 from line 7 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-.	8a	NONE
b	Multiply line 8a by 25% (.25).	8b	NONE
c	Exemption. Subtract line 8b from \$40,000 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-.	8c	40,000.
9	Subtract line 8c from line 7. If zero or less, enter -0-.	9	NONE
10	Multiply line 9 by 20% (.20)	10	NONE
11	Alternative minimum tax foreign tax credit (AMTFTC) (see instructions)	11	
12	Tentative minimum tax. Subtract line 11 from line 10.	12	NONE
13	Regular tax liability before applying all credits except the foreign tax credit	13	
14	Alternative minimum tax. Subtract line 13 from line 12. If zero or less, enter -0-. Enter here and on Form 1120, Schedule J, line 3, or the appropriate line of the corporation's income tax return	14	NONE

For Paperwork Reduction Act Notice, see separate instructions.

Form **4626** (2014)

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TELEXFREE, LLC

Adjusted Current Earnings (ACE) Worksheet

Keep for Your Records

▶ See ACE Worksheet Instructions.

1	Pre-adjustment AMTI. Enter the amount from line 3 of Form 4626	1	-2288625710.
2	ACE depreciation adjustment:		
a	AMT depreciation	2a	NONE
b	ACE depreciation:		
(1)	Post-1993 property	2b(1)	NONE
(2)	Post-1989, pre-1994 property	2b(2)	
(3)	Pre-1990 MACRS property	2b(3)	
(4)	Pre-1990 original ACRS property	2b(4)	
(5)	Property described in sections 168(f)(1) through (4)	2b(5)	
(6)	Other property	2b(6)	
(7)	Total ACE depreciation. Add lines 2b(1) through 2b(6)	2b(7)	NONE
c	ACE depreciation adjustment. Subtract line 2b(7) from line 2a	2c	NONE
3	Inclusion in ACE of items included in earnings and profits (E&P):		
a	Tax-exempt interest income	3a	
b	Death benefits from life insurance contracts	3b	
c	All other distributions from life insurance contracts (including surrenders)	3c	
d	Inside buildup of undistributed income in life insurance contracts	3d	
e	Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial list)	3e	
f	Total increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e	3f	
4	Disallowance of items not deductible from E&P:		
a	Certain dividends received	4a	
b	Dividends paid on certain preferred stock of public utilities that are deductible under section 247	4b	
c	Dividends paid to an ESOP that are deductible under section 404(k)	4c	
d	Nonpatronage dividends that are paid and deductible under section 1382(c)	4d	
e	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)	4e	
f	Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e	4f	
5	Other adjustments based on rules for figuring E&P:		
a	Intangible drilling costs	5a	
b	Circulation expenditures	5b	
c	Organizational expenditures	5c	
d	LIFO inventory adjustments	5d	
e	Installment sales	5e	
f	Total other E&P adjustments. Combine lines 5a through 5e	5f	
6	Disallowance of loss on exchange of debt pools	6	
7	Acquisition expenses of life insurance companies for qualified foreign contracts	7	
8	Depletion	8	
9	Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property	9	
10	Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 4a of Form 4626	10	-2288625710.

**SCHEDULE B
(Form 1120)**

(Rev. December 2014)
Department of the Treasury
Internal Revenue Service

Additional Information for Schedule M-3 Filers

OMB No. 1545-0123

▶ Attach to Form 1120.
▶ See instructions on page 2.

Name **TELEXFREE, LLC**

Employer identification number (EIN)

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

	Yes	No
1 Does any amount reported on Schedule M-3 (Form 1120), Part II, lines 9 or 10, column (d), reflect allocations to this corporation from a partnership of income, gain, loss, deduction, or credit that are disproportionate to this corporation's capital contribution to the partnership or its ratio for sharing other items of the partnership?		X
2 At any time during the tax year, did the corporation sell, exchange, or transfer any interest in an intangible asset to a related person as defined in section 267(b)?		X
3 At any time during the tax year, did the corporation acquire any interest in an intangible asset from a related person as defined in section 267(b)?		X
4a During the tax year, did the corporation enter into a cost-sharing arrangement with any related foreign party on whose behalf the corporation did not file Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations?		X
b At any time during the tax year, was the corporation a participant in a cost-sharing arrangement with any related foreign party on whose behalf the corporation did not file Form 5471?		X
5 At any time during the tax year, did the corporation make any change in accounting principle for financial accounting purposes? See instructions for the definition of change in accounting principle		X
6 At any time during the tax year, did the corporation make any change in a method of accounting for U.S. income tax purposes?		X
7 At any time during the tax year, did the corporation own any voluntary employees' beneficiary association (VEBA) trusts that were used to hold funds designated for employee benefits?		X
8 At any time during the tax year, did the corporation use an allocation method for indirect costs capitalized to self-constructed assets that varied from its financial method of accounting?		X
9 At any time during the tax year, did the corporation treat for tax purposes indirect costs, as defined in Regulations sections 1.263A-1(e)(3)(ii)(F), (G), and (H), as mixed-service costs, as defined in Regulations section 1.263A-1(e)(4)(ii)(C)?		X
10 Did the corporation, under section 118 or 362(c) and the related regulations, take a return filing position characterizing any amount as a contribution to the capital of the corporation during the tax year by any non-shareholders? Amounts so characterized may include, without limitation, incentives, inducements, money, and property.		X

For Paperwork Reduction Act Notice, see the Instructions for Form 1120.

Schedule B (Form 1120) (Rev. 12-2014)

SCHEDULE M-3
(Form 1120)

Department of the Treasury
Internal Revenue Service

Net Income (Loss) Reconciliation for Corporations
With Total Assets of \$10 Million or More

▶ Attach to Form 1120 or 1120-C. ▶ Information about Schedule M-3 (Form 1120) and its separate instructions is available at www.irs.gov/form1120.

OMB No. 1545-0123

2014

Name of corporation (common parent, if consolidated return)

TELEXFREE, LLC
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Employer identification number

[REDACTED]

Check applicable box(es): (1) ☒ Non-consolidated return (2) ☐ Consolidated return (Form 1120 only)
(3) ☐ Mixed 1120/L/PC group (4) ☐ Dormant subsidiaries schedule attached

Part I Financial Information and Net Income (Loss) Reconciliation (see instructions)

- 1 a Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ Yes. Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☒ No. Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.
- b Did the corporation prepare a certified audited non-tax-basis income statement for that period?
☐ Yes. Skip line 1c and complete lines 2a through 11 with respect to that income statement.
☒ No. Go to line 1c.
- c Did the corporation prepare a non-tax-basis income statement for that period?
☒ Yes. Complete lines 2a through 11 with respect to that income statement.
☐ No. Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4a.
- 2 a Enter the income statement period: Beginning 01/01/2014 Ending 12/31/2014
- b Has the corporation's income statement been restated for the income statement period on line 2a?
☐ Yes. (If "Yes," attach an explanation and the amount of each item restated.)
☒ No.
- c Has the corporation's income statement been restated for any of the five income statement periods immediately preceding the period on line 2a?
☒ Yes. (If "Yes," attach an explanation and the amount of each item restated.)
☐ No.
- 3 a Is any of the corporation's voting common stock publicly traded?
☐ Yes.
☒ No. If "No," go to line 4a.
- b Enter the symbol of the corporation's primary U.S. publicly traded voting common stock [REDACTED]
- c Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock [REDACTED]
- | | | |
|--|-----|-----------------|
| 4 a Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1 | 4a | -2,305,405,453. |
| b Indicate accounting standard used for line 4a (see instructions):
(1) <input checked="" type="checkbox"/> GAAP (2) <input type="checkbox"/> IFRS (3) <input type="checkbox"/> Statutory (4) <input type="checkbox"/> Tax-basis (5) <input type="checkbox"/> Other (specify) _____ | | |
| 5 a Net income from nonincludible foreign entities (attach statement) | 5a | () |
| b Net loss from nonincludible foreign entities (attach statement and enter as a positive amount) | 5b | |
| 6 a Net income from nonincludible U.S. entities (attach statement) | 6a | () |
| b Net loss from nonincludible U.S. entities (attach statement and enter as a positive amount) | 6b | |
| 7 a Net income (loss) of other includible foreign disregarded entities (attach statement) | 7a | |
| b Net income (loss) of other includible U.S. disregarded entities (attach statement) | 7b | |
| c Net income (loss) of other includible entities (attach statement) | 7c | |
| 8 Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement) | 8 | |
| 9 Adjustment to reconcile income statement period to tax year (attach statement) | 9 | |
| 10 a Intercompany dividend adjustments to reconcile to line 11 (attach statement) | 10a | |
| b Other statutory accounting adjustments to reconcile to line 11 (attach statement) | 10b | |
| c Other adjustments to reconcile to amount on line 11 (attach statement) | 10c | |
| 11 Net income (loss) per income statement of includible corporations. Combine lines 4 through 10, | 11 | -2,305,405,453. |
- Note. Part I, line 11, must equal Part II, line 30, column (a) or Schedule M-1, line 1 (see instructions).
- 12 Enter the total amount (not just the corporation's share) of the assets and liabilities of all entities included or removed on the following lines.

	Total Assets	Total Liabilities
a Included on Part I, line 4 ▶	NONE	NONE
b Removed on Part I, line 5 ▶		
c Removed on Part I, line 6 ▶		
d Included on Part I, line 7 ▶		

For Paperwork Reduction Act Notice, see the Instructions for Form 1120.

Schedule M-3 (Form 1120) 2014

Schedule M-3 (Form 1120) 2014

Page 2

Name of corporation (common parent, if consolidated return)

Employer identification number

TELEXFREE, LLC
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Check applicable boxes: (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/LPC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

Part II Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return (see instructions)

Income (Loss) Items (Attach statements for lines 1 through 12)	(a) Income (Loss) per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Income (Loss) per Tax Return
1 Income (loss) from equity method foreign corporations				
2 Gross foreign dividends not previously taxed				
3 Subpart F, QEF, and similar income inclusions				
4 Section 78 gross-up				
5 Gross foreign distributions previously taxed				
6 Income (loss) from equity method U.S. corporations				
7 U.S. dividends not eliminated in tax consolidation				
8 Minority interest for includible corporations				
9 Income (loss) from U.S. partnerships				
10 Income (loss) from foreign partnerships				
11 Income (loss) from other pass-through entities				
12 Items relating to reportable transactions				
13 Interest income (see instructions)				
14 Total accrual to cash adjustment				
15 Hedging transactions				
16 Mark-to-market income (loss)				
17 Cost of goods sold (see instructions)	()			()
18 Sale versus lease (for sellers and/or lessors)				
19 Section 481(a) adjustments				
20 Unearned/deferred revenue				
21 Income recognition from long-term contracts				
22 Original issue discount and other imputed interest				
23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities				
b Gross capital gains from Schedule D, excluding amounts from pass-through entities				
c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses				
e Abandonment losses				
f Worthless stock losses (attach statement)				
g Other gain/loss on disposition of assets other than inventory				
24 Capital loss limitation and carryforward used				
25 Other income (loss) items with differences (attach statement)				
26 Total income (loss) items. Combine lines 1 through 25				
27 Total expense/deduction items (from Part III, line 38)	-16,780,272.		16,779,743.	-529.
28 Other items with no differences	-2,288,625,181.			-2,288,625,181.
29a Mixed groups, see instructions. All others, combine lines 28 through 28	-2,305,405,453.		16,779,743.	-2,288,625,710.
b PC Insurance subgroup reconciliation totals				
c Life Insurance subgroup reconciliation totals				
30 Reconciliation totals. Combine lines 29a through 29c	-2,305,405,453.		16,779,743.	-2,288,625,710.

Note. Line 30, column (a), must equal Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

Schedule M-3 (Form 1120) 2014

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Schedule M-3 (Form 1120) 2014

Page 3

Name of corporation (common parent, if consolidated return)

Employer identification number

TELEXFREE, LLC
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Check applicable boxes: (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part III Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable
Income per Return - Expense/Deduction Items (see instructions)**

Expense/Deduction Items	(a) Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference	(d) Deduction per Tax Return
1 U.S. current income tax expense	16,778,576.		-16,778,576.	
2 U.S. deferred income tax expense				
3 State and local current income tax expense				
4 State and local deferred income tax expense				
5 Foreign current income tax expense (other than foreign withholding taxes)				
6 Foreign deferred income tax expense				
7 Foreign withholding taxes				
8 Interest expense (see instructions)				
9 Stock option expense				
10 Other equity-based compensation				
11 Meals and entertainment	1,058.		-529.	529.
12 Fines and penalties	638.		-638.	
13 Judgments, damages, awards, and similar costs				
14 Parachute payments				
15 Compensation with section 162(m) limitation				
16 Pension and profit-sharing				
17 Other post-retirement benefits				
18 Deferred compensation				
19 Charitable contribution of cash and tangible property				
20 Charitable contribution of intangible property				
21 Charitable contribution limitation/carryforward				
22 Domestic production activities deduction				
23 Current year acquisition or reorganization investment banking fees				
24 Current year acquisition or reorganization legal and accounting fees				
25 Current year acquisition/reorganization other costs				
26 Amortization/impairment of goodwill				
27 Amortization of acquisition, reorganization, and start-up costs				
28 Other amortization or impairment write-offs				
29 Reserved				
30 Depletion				
31 Depreciation				
32 Bad debt expense				
33 Corporate owned life insurance premiums				
34 Purchase versus lease (for purchasers and/or lessees)				
35 Research and development costs				
36 Section 118 exclusion (attach statement)				
37 Other expense/deduction items with differences (attach statement)				
38 Total expense/deduction items. Combine lines 1 through 37. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive	16,780,272.		-16,779,743.	529.

Form **1125-A**
(Rev. December 2012)

Cost of Goods Sold

OMB No. 1545-2225

Department of the Treasury
Internal Revenue Service

► Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.
► Information about Form 1125-A and its instructions is at www.irs.gov/form1125a.

Name TELEXFREE, LLC		Employer identification number
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		
1	Inventory at beginning of year	1
2	Purchases	2
3	Cost of labor	3
4	Additional section 263A costs (attach schedule)	4
5	Other costs (attach schedule) SEE. STATEMENT. B.	5
6	Total. Add lines 1 through 5	6
7	Inventory at end of year	7
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8
9a	Check all methods used for valuing closing inventory:	
	(i) <input type="checkbox"/> Cost	
	(ii) <input type="checkbox"/> Lower of cost or market	
	(iii) <input type="checkbox"/> Other (Specify method used and attach explanation.)	
b	Check if there was a writedown of subnormal goods	<input type="checkbox"/>
c	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970).	<input type="checkbox"/>
d	If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO.	9d
e	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation	<input type="checkbox"/> Yes <input type="checkbox"/> No

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (defined below), you can adopt or change your accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method).

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, you can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See the instructions for lines 2 and 7.

For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on adopting or changing to this method of accounting, see Form 3115, Application for Change in Accounting Method, and its instructions.

Qualifying taxpayer. A qualifying taxpayer is a taxpayer that, (a) for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3 prior tax years and (b) its business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2001-10, 2001-2 I.R.B. 272.

Qualifying small business taxpayer. A qualifying small business taxpayer is a taxpayer that, (a) for each prior tax year

ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years, (b) whose principal business activity is not an ineligible activity, and (c) whose business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2002-28, 2002-18, I.R.B. 815.

Uniform capitalization rules. The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL
=====

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE	46,808.
PAYROLL TAX EXPENSE	14,483.

TOTAL	61,291.
	=====

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 19 - CONTRIBUTIONS DEDUCTION

1. TAXABLE INCOME (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-2,288,625,710.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. TAXABLE INCOME WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-2,288,625,710.
5. CONTRIBUTION DEDUCTION LIMITATION (TAXABLE INCOME X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

LINE 19 - 5 YEAR CONTRIBUTION CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CONVERTED TO NOL CARRYOVER	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE		7,500.
TOTAL	7,500.	NONE		7,500.

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL
=====LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT	34,021.
BANK CHARGES	3,629.
REFUND	1,425.
EVENTS	6,668.
FILING AND REGISTERED AGENT FEES	269,145.
LEGAL AND PROFESSIONAL FEES	2,140,637.
CONSULTING EXPENSES	3,896,209.
OFFICE EXPENSES	11,482.
PAYROLL FEES	21,451.
POSTAGE	90.
PERSONNEL	47,344.
SMALL TOOLS AND EQUIPMENT	1,749.
MERCHANT FEES	313,623.
SOFTWARE DEVELOPMENT	51,684.
CONTRACT LABOR	283,642.
INFORMATION TECHNOLOGY	257,663.
WEBSITE	60.
ADVERTISING CREDITS EXPENSE	2,442,705,606.
TOTAL	2,450,046,128.

=====

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 -
OTHER CURRENT ASSETS

	BEGINNING	ENDING
PROPERTY RESERVE	4,468,411.	NONE
LOAN TO TELEXELECTRIC, LLLP	2,022,329.	NONE
LOAN TO TELEXFREE FINANCIAL, INC	3,800,475.	NONE
LOAN TO TELEXMOBILE	500,870.	NONE
TOTAL	10,792,085.	NONE

SCH L, LINE 9 - OTHER INVESTMENTS

FIDELITY INVESTMENT	18,068,961.	NONE
MIDDLESEX SAVINGS	2,000,000.	NONE
WADDELL AND REED	7,299,409.	NONE
TOTAL	27,368,370.	NONE

SCH L, LINE 14 - OTHER ASSETS

SECURITY DEPOSITS	5,944.	NONE
SOFTWARE	97,949.	NONE
ORGANIZATIONAL COSTS	3,475.	NONE
TOTAL	107,368.	NONE

SCH L, LINE 18 -
OTHER CURRENT LIABILITIES

COMMISSIONS PAYABLE	7,642,550.	NONE
FEDERAL INCOME TAXES PAYABLE	19,964,030.	NONE
LOAN FROM TELEXFREE, INC.	5,390,753.	NONE
PAYABLE BRAZILIAN HELP, INC.	2,672.	NONE
STATE & LOCAL INCOME TAXES PAYABLE	3,812,939.	NONE
TELECOM TAXES PAYABLE	23,404.	NONE
TOTAL	36,836,348.	NONE

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL
=====SCH L, LINE 21 - OTHER LIABILITIES

ACCRUED ADVERTISING CREDITS

TOTAL

BEGINNING
-----2,161,474,220.
-----2,161,474,220.
=====ENDING
-----NONE
-----NONE
=====

TELEXFREE, LLC



FORM 1120, PAGE 5 DETAIL

SCH M-2, LINE 3 - OTHER INCREASES

SEE ATTACHMENT A

4,629,811,265.

TOTAL

4,629,811,265.



TELEXFREE, LLC

FORM 4626 DETAIL

LINE 20 - OTHER ADJUSTMENTS - CONTRIBUTIONS DEDUCTION

1. AMTI (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-2,288,625,710.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. AMTI WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-2,288,625,710.
5. CONTRIBUTION DEDUCTION LIMITATION (AMTI X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

5 YEAR CONTRIBUTIONS CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL	7,500.	NONE	7,500.

LINE 20 - CONTRIBUTIONS ADJUSTMENT

REGULAR CONTRIBUTIONS	NONE
AMT CONTRIBUTIONS	NONE
CONTRIBUTION ADJUSTMENT	NONE

TELEXFREE, LLC

FORM 1125-A DETAIL
=====LINE 5 - OTHER COSTS
-----TELECOM & DATABASE NETWORK EXPENSE
TERMINATION

57,886.

1,505,156.

TOTAL

1,563,042.
=====

Telexfree, LLC

Tax Year Ended: December 31, 2014

EIN: [REDACTED]

The taxpayer, TelexFree Financial, Inc. (EIN: 04-4387555) and TelexFree, Inc. (EIN: 32-0051309) (collectively, the "Debtors") operated a Ponzi/pyramid scheme until April 2014 when they filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. While the Debtors purported to be in the business of selling phone packages before their bankruptcy filings, the primary purpose of their operation was to reward participants for the recruitment of additional participants. The Debtors also compensated participants for advertising and product sales.

The taxpayer's return was prepared using the books and records provided by the Chapter 11 Trustee appointed by the Bankruptcy Court to oversee the Debtors' Chapter 11 cases. Homeland Security Investigation, the investigative arm of the Department of Homeland Security, provided the Trustee with copies of electronic information contained in the Debtors' computers and servers. The Trustee used this data to recreate the information management system used by the Debtors, which tracked account activity of the Ponzi/pyramid scheme's participants.

The books and records show that the Debtors operated at a loss each year as the Ponzi/pyramid scheme provided participants with significant and unsustainable returns on investment. The income reported on the taxpayer's return represents amounts the taxpayer received from participants for membership plans or phone packages (in the form of cash or the redemption of credits in satisfaction of invoices). The deductions claimed by the taxpayer are for amounts owed to participants for advertising services, product and membership plan sales, as well as other general operating expenses.

TELEXFREE, LLC

EIN: [REDACTED]

FORM 1120 - LINE 29A - NET OPERATING LOSS CARRYOVER

Year end	NOL C/O at BOY	NOL Generated	Adjustment to NOL - NOTE A	NOL Used/ Carried back	C/O to Next Year
12/31/2012	-	1,239,943	(341,254)	-	898,689
12/31/2013	898,689	2,101,985,935	(1,813,146,971)	-	289,737,653
12/31/2014	289,737,653	2,288,625,710			2,578,363,362
	<u>290,636,341</u>				<u>2,578,363,362</u>

NOTE A: Adjustment to NOL represents a reallocation of Advertising credits and Commissions as paid in the appropriate years to correct erroneously allocated credits.

2 VRS

BY CERTIFIED MAIL

March 7, 2018

Internal Revenue Service
Centralized Insolvency Operation
P.O. Box 7346
Philadelphia, PA 19101-7346

RECEIVED
PSC

MAR 12 2018

#206
INSOLVENCY

Exhibit

5

Taxpayer: TelexFree, LLC - Chapter 11
EIN: [REDACTED]
Form: 1120
Tax Periods: December 31, 2012; December 31, 2013

REQUEST FOR PROMPT REFUND


Dear Sir or Madam:

On behalf of TelexFree, LLC ("Taxpayer"), enclosed please find amended Forms 1120, *U.S. Corporation Income Tax Return*, for the periods ended December 31, 2012 and December 31, 2013. The enclosed returns, which report no tax due, supplement the Taxpayer's prior prompt refund requests for these periods submitted in September 2016 under Revenue Procedure 2010-27. The Taxpayer respectfully requests that you process the enclosed, amended returns.

Under the penalties of perjury, I declare that I have examined this application, and, to the best of my knowledge and belief, it is true, correct, and complete.

If you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,
TelexFree, LLC


Stephen Darr
Bankruptcy Trustee

RECEIVED

MAR 28 2017

2015

Form **1120X**
 (Rev. January 2011)
 Department of the Treasury
 Internal Revenue Service

Amended U.S. Corporation Income Tax Return

OMB No. 1545-0132

For tax year ending
12/31/2012
 (Enter month and year.)

Name	TELEXFREE, LLC		Employer identification number	
Number, street, and room or suite no. (If a P.O. box, see instructions.)	100 HIGH STREET #2301			
City or town, state, and ZIP code	BOSTON, MA	02110	Telephone number (optional)	
Enter name and address used on original return (If same as above, write "Same.")				
TELEXFREE LLC 4705 S.DURANGO DR #100-J51 LAS				
Internal Revenue Service Center where original return was filed				
OGDEN, UT				

Fill in applicable items and use Part II on the back to explain any changes

Part I	Income and Deductions (see instructions)	(a) As originally reported or as previously adjusted	(b) Net change - increase or (decrease) - explain in Part II	(c) Correct amount
1	Total income	15,407,680.	2,459,180.	17,866,860.
2	Total deductions	16,647,623.	1,219,237.	17,866,860.
3	Taxable income. Subtract line 2 from line 1	-1,239,943.	1,239,943.	
4	Total tax			

Payments and Credits (see instructions)

5a	Overpayment in prior year allowed as a credit	5a		
b	Estimated tax payments	5b		
c	Refund applied for on Form 4466	5c		
d	Subtract line 5c from the sum of lines 5a and 5b	5d		
e	Tax deposited with Form 7004	5e		
f	Credit from Form 2439	5f		
g	Credit for federal tax on fuels and other refundable credits	5g		
6	Tax deposited or paid with (or after) the filing of the original return	6	692,854.	
7	Add lines 5d through 6, column (c)	7	692,854.	
8	Overpayment, if any, as shown on original return or as later adjusted	8		
9	Subtract line 8 from line 7	9	692,854.	

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 MAR 12 2018
 INSOLVENCY

Tax Due or Overpayment (see instructions)

10	Tax due. Subtract line 9 from line 4, column (c). If paying by check, make it payable to the "United States Treasury"	10	
11	Overpayment. Subtract line 4, column (c), from line 9	11	692,854.
12	Enter the amount of line 11 you want: Credited to 20 Estimated tax Refunded	12	692,854.

Sign Here	Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Signature of officer		Date	Title
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	JOSEPH MIDDLETON		3/7/18	
	Firm's name	KPMG LLP	Firm's EIN	
	Firm's address	60 SOUTH STREET BOSTON, MA	02111	617-988-1000

For Paperwork Reduction Act Notice, see instructions.

Form 1120X (Rev. 1-2011)

Form 1120X (Rev. 1-2011)

Page **2**

Part II **Explanation of Changes to Items in Part I** (Enter the line number from page 1 for the items you are changing, and give the reason for each change. Show any computation in detail. Also, see **What To Attach** in the instructions.)

If the change is due to a net operating loss carryback, a capital loss carryback, or a general business credit carryback, see **Carryback Claims** in the instructions, and check here ☐

SEE ATTACHED

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Tax Period: December 31, 2012

2012 AMENDED RETURN STATEMENT

The taxpayer is amending its return again for the following reasons: to include total activity for the TelexFree operations; report items of income and deductions based, to the extent possible, on the reconstructed transactional data included in the SIG system (TelexFree's information management system); to capture the activities of TelexFree, Inc., another entity in the Ponzi scheme, and to correct the taxpayer's deduction for credits deposited in the Ponzi scheme users' accounts. Due to the relationship between the parties and the nature of the Ponzi scheme, it is impossible to separate the activity attributable to any individual entity within the system.

Based on SIG, the information management system utilized by the TelexFree entities, the amended return now reports all income the TelexFree entities received during 2012 for the sale of membership plans and phone packages. The prior amended return reported gross income based only on the general ledger of TelexFree, LLC.

The amended return also includes operating expenses recorded in the general ledger of TelexFree, Inc. Furthermore, the aggregate deduction for credits deposited in the Ponzi scheme users' accounts (labeled as "Commissions" and "Advertising Credits Expense" on the prior amended return) has been adjusted so it is consistent with the best information available in the SIG system rather than the trailing twelve-month liability used to prepare the first amended return.

<div style="display: flex; justify-content: space-between;"> <div> <p>Form 1120 Department of the Treasury Internal Revenue Service</p> </div> <div style="text-align: center;"> <p>U.S. Corporation Income Tax Return</p> <p>For calendar year 2012 or tax year beginning <u>07/19/2012</u>, ending <u>12/31/2012</u></p> <p>► Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.</p> </div> <div style="text-align: right;"> <p>OMB No. 1545-0023</p> <p style="font-size: 2em; font-weight: bold;">2012</p> </div> </div>					
<p>A Check if:</p> <p>1a Consolidated return (attach Form 951) <input type="checkbox"/></p> <p>b Life/nonlife consolidated return <input type="checkbox"/></p> <p>2 Personal holding co. (attach Sch. PH) <input type="checkbox"/></p> <p>3 Personal service corp. (see instructions) <input type="checkbox"/></p> <p>4 Schedule M-3 attached <input type="checkbox"/></p>		<p>Name <u>TELEXFREE, LLC</u></p> <p>C/O <u>STEPHEN DARR, BANKRUPTCY TRUSTEE</u></p> <p>Number, street, and room or suite no. if a P.O. box, see instructions. <u>100 HIGH STREET #2301</u></p> <p>City or town, state, and ZIP code <u>BOSTON, MA 02110</u></p>		<p>B Employer identification number <u>[REDACTED]</u></p> <p>C Date incorporated <u>07/19/2012</u></p> <p>D Total assets (see instructions) \$ <u>15,247,249.</u></p>	
<p>E Check if: (1) <input checked="" type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input checked="" type="checkbox"/> Address change</p>					
<p>Income</p> <p>1a Gross receipts or sales <u>18,220,915.</u></p> <p>b Returns and allowances <u>248,692.</u></p> <p>c Balance. Subtract line 1b from line 1a <u>17,972,223.</u></p> <p>2 Cost of goods sold (attach Form 1125-A) <u>105,363.</u></p> <p>3 Gross profit. Subtract line 2 from line 1c <u>17,866,860.</u></p> <p>4 Dividends (Schedule C, line 19)</p> <p>5 Interest</p> <p>6 Gross rents</p> <p>7 Gross royalties</p> <p>8 Capital gain net income (attach Schedule D (Form 1120))</p> <p>9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)</p> <p>10 Other income (see instructions - attach statement)</p> <p>11 Total income. Add lines 3 through 10 <u>17,866,860.</u></p>		<p>1a <u>18,220,915.</u></p> <p>1b <u>248,692.</u></p> <p>1c <u>17,972,223.</u></p> <p>2 <u>105,363.</u></p> <p>3 <u>17,866,860.</u></p> <p>4</p> <p>5</p> <p>6</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11 <u>17,866,860.</u></p>			
<p>Deductions (See instructions for limitations on deductions.)</p> <p>12 Compensation of officers (see instructions - attach Form 1125-E)</p> <p>13 Salaries and wages (less employment credits)</p> <p>14 Repairs and maintenance</p> <p>15 Bad debts</p> <p>16 Rents <u>8,028.</u></p> <p>17 Taxes and licenses</p> <p>18 Interest</p> <p>19 Charitable contributions</p> <p>20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) <u>15,121.</u></p> <p>21 Depletion</p> <p>22 Advertising <u>1,550.</u></p> <p>23 Pension, profit-sharing, etc., plans</p> <p>24 Employee benefit programs</p> <p>25 Domestic production activities deduction (attach Form 8903)</p> <p>26 Other deductions (attach statement) <u>SEE STATEMENT 1</u></p> <p>27 Total deductions. Add lines 12 through 26 <u>4,430,999.</u></p> <p>28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 <u>13,435,861.</u></p> <p>29a Net operating loss deduction (see instructions) <u>13,435,861.</u></p> <p>b Special deductions (Schedule C, line 20)</p> <p>c Add lines 29a and 29b <u>13,435,861.</u></p>		<p>12</p> <p>13 <u>400.</u></p> <p>14</p> <p>15</p> <p>16 <u>8,028.</u></p> <p>17</p> <p>18</p> <p>19</p> <p>20 <u>15,121.</u></p> <p>21</p> <p>22 <u>1,550.</u></p> <p>23</p> <p>24</p> <p>25</p> <p>26 <u>4,405,900.</u></p> <p>27 <u>4,430,999.</u></p> <p>28 <u>13,435,861.</u></p> <p>29a <u>13,435,861.</u></p> <p>29b</p> <p>29c <u>13,435,861.</u></p>			
<p>Tax, Refundable Credits, and Payments</p> <p>30 Taxable income. Subtract line 29c from line 28 (see instructions)</p> <p>31 Total tax (Schedule J, Part I, line 11)</p> <p>32 Total payments and refundable credits (Schedule J, Part II, line 21) <u>692,854.</u></p> <p>33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/></p> <p>34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed</p> <p>35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid <u>692,854.</u></p> <p>36 Enter amount from line 35 you want: Credited to 2013 estimated tax <input checked="" type="checkbox"/> Refunded <input type="checkbox"/> <u>692,854.</u></p>		<p>30</p> <p>31</p> <p>32 <u>692,854.</u></p> <p>33</p> <p>34</p> <p>35 <u>692,854.</u></p> <p>36 <u>692,854.</u></p>			
<p>Sign Here <u>Stephen Darr</u> <u>3/7/18</u> <u>Trustee</u></p> <p>Signature of officer Date Title</p>		<p>May the IRS discuss this return with the preparer shown below (see instructions)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>			
<p>Paid Preparer Use Only</p> <p>Print/Type preparer's name <u>JOSEPH MIDDLETON</u></p> <p>Firm's name <u>KPMG LLP</u></p> <p>Firm's address <u>60 SOUTH STREET BOSTON, MA 02111</u></p>		<p>Preparer's signature <u>[Signature]</u> Date <u>3/7/18</u></p> <p>Check <input type="checkbox"/> if self-employed <input type="checkbox"/> PTIN <u>[REDACTED]</u></p> <p>Firm's EIN <u>[REDACTED]</u></p> <p>Phone no. <u>617-988-1000</u></p>			

TELEXFREE, LLC

Form 1120 (2012)

Page 2

Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities . .		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities . . .		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs . .		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs . . .		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	Total. Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12 . .			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4 . . . ▶			
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Form 1120 (2012)

TELEFREE, LLC

Form 1120 (2012)

Page 3

Schedule J Tax Computation and Payment (see instructions)

Part I - Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))		
2	Income tax. Check if a qualified personal service corporation (see instructions)		2
3	Alternative minimum tax (attach Form 4626)	SEE STATEMENT 6	3
4	Add lines 2 and 3		4
5a	Foreign tax credit (attach Form 1118)	5a	
b	Credit from Form 8834, line 30 (attach Form 8834)	5b	
c	General business credit (attach Form 3800)	5c	
d	Credit for prior year minimum tax (attach Form 8827)	5d	
e	Bond credits from Form 8912	5e	
6	Total credits. Add lines 5a through 5e		6
7	Subtract line 6 from line 4		7
8	Personal holding company tax (attach Schedule PH (Form 1120))		8
9a	Recapture of investment credit (attach Form 4255)	9a	
b	Recapture of low-income housing credit (attach Form 8611)	9b	
c	Interest due under the look-back method - completed long-term contracts (attach Form 8697)	9c	
d	Interest due under the look-back method - income forecast method (attach Form 8868)	9d	
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e	
f	Other (see instructions - attach statement)	9f	
10	Total. Add lines 9a through 9f		10
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31		11

Part II - Payments and Refundable Credits

12	2011 overpayment credited to 2012		12
13	2012 estimated tax payments		13
14	2012 refund applied for on Form 4466		14
15	Combine lines 12, 13, and 14		15
16	Tax deposited with Form 7004		16
17	Withholding (see instructions)		17
18	Total payments. Add lines 15, 16, and 17		18
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4136	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement - see instructions)	19d	692,854.
20	Total credits. Add lines 19a through 19d		20 692,854.
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32		21 692,854.

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____	Yes	No
2	See the Instructions and enter the:		
a	Business activity code no. <u>454390</u>		
b	Business activity <u>DIRECT SALES</u>		
c	Product or service <u>COMMUNICATIONS</u>		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation _____		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G).		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G).		X

Form 1120 (2012)

TELEXPREE, LLC

Form 1120 (2012)

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Schedule K Other Information *continued* (see instructions)

				Yes	No
5 At the end of the tax year, did the corporation:					
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 881, Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.					X
(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock		
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.					X
(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital		
6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)					X
If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.					
If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.					
7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock? For rules of attribution, see section 318. If "Yes," enter:				X	
(i) Percentage owned <u>30.00</u> and (ii) Owner's country <u>BR</u>					
(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached <u> </u>					
8 Check this box if the corporation issued publicly offered debt instruments with original issue discount <input type="checkbox"/>					
If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.					
9 Enter the amount of tax-exempt interest received or accrued during the tax year <u>\$</u> <u> </u>					
10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) <u>3</u>					
11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here <input type="checkbox"/>					
If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.					
12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) <u>\$</u> <u> </u>					
13 Are the corporation's total receipts (line 1c plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000? <input type="checkbox"/>					X
If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year <u>\$</u> <u> </u>					
14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)? <input type="checkbox"/>					X
If "Yes," complete and attach Schedule UTP.					
15a Did the corporation make any payments in 2012 that would require it to file Form(s) 1099? <input type="checkbox"/>				X	
b If "Yes," did or will the corporation file required Forms 1099? <input type="checkbox"/>				X	
16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock? <input type="checkbox"/>					X
17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction? <input type="checkbox"/>					X
18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million? <input type="checkbox"/>					X

Form 1120 (2012)

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USA-000008

TELEXFREE, LLC

Form 1120 (2012)

Page 5

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash,		NONE		1,707,287.
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts	()		()	
3	Inventories,				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach schedule)	STMT 2	NONE		13,509,841.
7	Loans to shareholders		NONE		12,124.
8	Mortgage and real estate loans				
9	Other investments (attach schedule)				
10a	Buildings and other depreciable assets	NONE		15,121.	
b	Less accumulated depreciation	(NONE)	NONE	(599.)	14,522.
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach schedule)	STMT 2	NONE		3,475.
15	Total assets		NONE		15,247,249.
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach schedule)	STMT 2	NONE		7,265,686.
19	Loans from shareholders		NONE		50.
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach schedule)				
22	Capital stock: a Preferred stock				
b	Common stock				
23	Additional paid-in capital				
24	Retained earnings - Appropriated (attach schedule)				
25	Retained earnings - Unappropriated		NONE		7,981,513.
26	Adjustments to shareholders' equity (attach schedule)				
27	Less cost of treasury stock	()		()	
28	Total liabilities and shareholders' equity		NONE		15,247,249.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more - see instructions

1	Net income (loss) per books,	7,981,513.	7	Income recorded on books this year not included on this return (itemize): Tax-exempt interest \$	
2	Federal income tax per books,	4,624,801.			
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
5	Expenses recorded on books this year not deducted on this return (itemize):		a	Depreciation, \$	14,522.
a	Depreciation, \$		b	Charitable contributions, \$	
b	Charitable contributions, \$				
c	Travel and entertainment, \$	640.			
	SEE STATEMENT 3	843,429.	9	Add lines 7 and 8	14,522.
6	Add lines 1 through 5	13,450,383.	10	Income (page 1, line 28) - line 6 less line 9	13,435,861.

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	NONE	5	Distributions: a Cash	
2	Net income (loss) per books,	7,981,513.	b	Stock	
3	Other increases (itemize):		c	Property,	
			6	Other decreases (itemize):	
			7	Add lines 5 and 6	
4	Add lines 1, 2, and 3	7,981,513.	8	Balance at end of year (line 4 less line 7)	7,981,513.

Form 1120 (2012)

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USA-000009

Form **1125-A**

(Rev. December 2012)

Department of the Treasury
Internal Revenue Service

Cost of Goods Sold

► Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.
► Information about Form 1125-A and its instructions is at www.irs.gov/form1125a.

OMB No. 1545-2225

Name TELEFREE, LLC		Employer identification number
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		
1	Inventory at beginning of year	1
2	Purchases	2
3	Cost of labor	3
4	Additional section 263A costs (attach schedule)	4
5	Other costs (attach schedule) SEE STATEMENT 4	5
6	Total. Add lines 1 through 5	6
7	Inventory at end of year	7
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8
		105,363.
		105,363.
		105,363.

9a Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market

(iii) ☐ Other (Specify method used and attach explanation.) ►

b Check if there was a writedown of subnormal goods. ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970). ☐

d If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO. **9d**

e If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)? ☐ Yes ☒ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☒ No

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (defined below), you can adopt or change your accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method).

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, you can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See the instructions for lines 2 and 7.

For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on adopting or changing to this method of accounting, see Form 3115, Application for Change in Accounting Method, and its instructions.

Qualifying taxpayer. A qualifying taxpayer is a taxpayer that, (a) for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3 prior tax years and (b) its business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2001-10, 2001-2 I.R.B. 272.

Qualifying small business taxpayer. A qualifying small business taxpayer is a taxpayer that, (a) for each prior tax year

ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years, (b) whose principal business activity is not an ineligible activity, and (c) whose business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2002-28, 2002-18, I.R.B. 815.

Uniform capitalization rules. The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

For Paperwork Reduction Act Notice, see instructions.

Form **1125-A** (12-2012)

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8421ME 1592

Form **4562****Depreciation and Amortization**
(Including Information on Listed Property)

OMB No. 1545-0172

2012Attachment
Sequence No. **179**

Identifying number

Department of the Treasury
Internal Revenue Service (99)

▶ See separate instructions.

▶ Attach to your tax return.

Name(s) shown on return

TELEXPREE, LLC

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Business or activity to which this form relates

GENERAL DEPRECIATION AND AMORTIZATION**Part I Election To Expense Certain Property Under Section 179***Note: If you have any listed property, complete Part V before you complete Part I.*

1	Maximum amount (see instructions)	1	500,000.
2	Total cost of section 179 property placed in service (see instructions)	2	15,121.
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000.
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married (filing separately, see instructions)	5	500,000.
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	15,121.
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	15,121.
10	Carryover of disallowed deduction from line 13 of your 2011 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	500,000.
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	15,121.
13	Carryover of disallowed deduction to 2013. Add lines 9 and 10, less line 12	13	

*Note: Do not use Part II or Part III below for listed property. Instead, use Part V.***Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2012	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		

Section B - Assets Placed in Service During 2012 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only - see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C - Assets Placed in Service During 2012 Tax Year Using the Alternative Depreciation System

20a Class life				S/L	
b 12-year		12 yrs.		S/L	
c 40-year		40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instructions	22	15,121.
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

JSA For Paperwork Reduction Act Notice, see separate instructions.

2X2300 2,000

8421ME 1592

Form **4562** (2012)**10**

USA-000012

TELEXPREE, LLC
Form 4562 (2012)

Part V Listed Property (include automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A - Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed?		Yes	No	24b If "Yes," is the evidence written?		Yes	No	
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions) 25								
26 Property used more than 50% in a qualified business use:								
		%						
		%						
		%						
27 Property used 50% or less in a qualified business use:								
		%				S/L -		
		%				S/L -		
		%				S/L -		
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1							28	
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1								29

Section B - Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1	(b) Vehicle 2	(c) Vehicle 3	(d) Vehicle 4	(e) Vehicle 5	(f) Vehicle 6
30 Total business/investment miles driven during the year (do not include commuting miles)						
31 Total commuting miles driven during the year						
32 Total other personal (noncommuting) miles driven						
33 Total miles driven during the year. Add lines 30 through 32						
34 Was the vehicle available for personal use during off-duty hours?	Yes No	Yes No	Yes No	Yes No	Yes No	Yes No
35 Was the vehicle used primarily by a more than 5% owner or related person?						
36 Is another vehicle available for personal use?						

Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

	Yes	No
37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.)		

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2012 tax year (see instructions):					
43 Amortization of costs that began before your 2012 tax year					43
44 Total. Add amounts in column (f). See the instructions for where to report					44

JSA

Form 4562 (2012)

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8421ME 1592

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USA-000013

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT	726.
GROSS CREDIT LIABILITY ACCRUAL	4,261,846.
BANK CHARGES	17,586.
MERCHANT FEES	84,712.
FILING FEES	1,104.
MISCELLANEOUS	512.
OFFICE EXPENSES	466.
OFFICE SUPPLIES	2,441.
PROFESSIONAL FEES	23,933.
PRODUCT DEVELOPMENT	6,320.
SMALL ITEMS NOT CAPITALIZED	6,254.
TOTAL	4,405,900.

STATEMENT 1

8421ME 1592

12

USA-000014

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Tax Period: December 31, 2012

2012 Statement Regarding Gross Credit Liability Accrual

The credits deposited in Ponzi scheme users' accounts during 2012 (i.e., \$4,261,846) were used by participants to satisfy invoices and redeemed for cash as shown below:

\$0	Credits outstanding BOY
\$4,261,846	2012 Credits issued to users (deduction claimed on line 26)
(\$3,407,954)	Credits redeemed by users to satisfy invoices (included in gross receipts in line 1a)
(\$1,125,103)	Credits redeemed by users for cash
<hr/> \$0	Credits outstanding EOY

STATEMENT 1A

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 -
OTHER CURRENT ASSETS

	BEGINNING	ENDING
PROPERTY ON HOLD	NONE	938,871.
LOAN FROM TELEXFREE INC	NONE	701,525.
LOAN TO YMPACTUS	NONE	11,869,445.
TOTAL	NONE	13,509,841.

SCH L, LINE 14 - OTHER ASSETS

ORGANIZATIONAL COSTS	NONE	3,475.
TOTAL	NONE	3,475.

SCH L, LINE 18 -
OTHER CURRENT LIABILITIES

ACCRUED FEDERAL INCOME TAX	NONE	4,624,801.
ACCRUED STATE TAX	NONE	843,429.
BRAZILLIAN HELP INC	NONE	2,672.
LOAN TO/FROM TELEXFREE LLC	NONE	701,525.
OTHER CURRENT LIABILITIES	NONE	1,093,259.
TOTAL	NONE	7,265,686.

STATEMENT 2

8421ME 1592

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USA-000016

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH M-1, LINE 5 - EXPENSES RECORDED ON BOOKS NOT DEDUCTED ON RETURN

STATE TAXES

843,429.

TOTAL

843,429.

STATEMENT 3

8421ME 1592

14

USA-000017

TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

TELECOM & DATABASE NETWORK EXPENSE
TERMINATION

14,691.

90,672.

TOTAL

105,363.

STATEMENT 4

8421ME 1592

15

USA-000018

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Tax Period: December 31, 2012

2012 Statement Regarding Net Operating Loss Deduction

2012 Taxable Income before NOL		\$13,435,861
2013 Net Operating Loss Carryback	(\$3,143,850)	
2014 Net Operating Loss Carryback	<u>(\$10,292,011)</u>	
Total NOL C/B	(\$13,435,861)	
2012 Taxable Income after NOL		<hr/> 0.

STATEMENT 5

Taxpayer: TelexFree LLC
EIN: [REDACTED]
Tax Period: December 31, 2012

2012 AMT STATEMENT

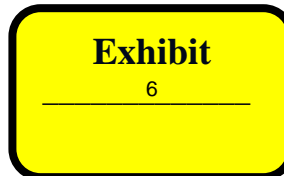
The tax year ended December 31, 2012 was the Taxpayer's initial year in existence. During the tax year at issue, Internal Revenue Code section 55(e)(1)(C) exempted initial year taxpayers from Alternative Minimum Tax.

STATEMENT 6



Department of the Treasury
Internal Revenue Service
Large Business and International

Telexfree, LLC
c/o Stephen Darr, Bankruptcy Trustee
100 High Street, 23 Floor
Boston, MA 02110



Date:
06/17/2019
Taxpayer ID number (last 4 digits):
[REDACTED]
Form:
1120X
Tax periods ended: Claim amount:
12/31/2012 692,854
Date claim received:
03/12/2018
Person to contact:
Christine DeRosa
Employee ID number:
1001033183
Contact telephone number:
617.316.2725
Last date to respond to this letter:
07/17/2019

Dear Mr. Darr:

We examined your claim and propose:

- ☐ Partial disallowance, as shown in the enclosed examination report. If you accept our findings, please sign and return the enclosed Form 2297, *Waiver Form* and Form 3363, *Acceptance Form*.
- ☒ Full disallowance, as shown in the enclosed examination report or at the end of this letter. If you accept our findings, please sign and return the enclosed Form 2297, *Waiver Form* and Form 3363, *Acceptance Form*.
- ☐ Full disallowance with additional tax due, as shown in the enclosed examination report. If you accept our findings, please sign and return the enclosed Form 2297, *Waiver Form* and the examination report.

Note: If your claim involves a joint return, both taxpayers must sign the form(s).

If you are a "C" Corporation filer, Section 6621(c) of the Internal Revenue Code provides for an interest rate 2% higher than the standard interest rate on deficiencies of \$100,000 or more.

If you don't agree with our findings, you may request a meeting or telephone conference with the supervisor of the person identified in the heading of this letter. If you still don't agree with our findings, we recommend that you request a conference with our Appeals Office. If you request a conference, we will forward your request to the Appeals Office and they will contact you to schedule an appointment.

If the proposed change to tax is:

- \$25,000 or less for *each* referenced tax period; you may send us a letter requesting Appeals consideration, indicating what you don't agree with and the reasons why you don't agree.
- More than \$25,000 for *any* referenced tax period; you must submit a formal protest.

The requirements for filing a formal protest are explained in the enclosed Publication 3498, *The Examination Process*. Publication 3498 also includes information on your *Rights as a Taxpayer* and the *IRS Collection Process*.

If you don't respond by the date shown in the heading of this letter, we will process your case based on the adjustments shown in the enclosed examination report or the explanations given at the end of this letter.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter. Thank you for your cooperation.

Sincerely,

Christine DeRosa

Christine DeRosa
Revenue Agent

Enclosures:
Examination Report
Form 2297
Form 3363
Publication 3498
Envelope

Reason for Disallowance:

SEE ATTACHMENT

Attachment to Letter 569

On September 13, 2016, you filed a Form 1120-X claiming a refund, for taxable year 2012, in the amount of \$692,854.00, (comprised of income tax of \$686,121.00 together with underpayment interest thereon of approximately \$6,733 ("First Refund Claim"). The Service disallowed this First Refund Claim.

On March 12, 2018 you filed a second Form 1120-X, again claiming a refund for taxable year 2012 in the amount of \$692,854.00, (comprised of income tax of \$686,121.00 together with underpayment interest thereon of approximately \$6,733 ("Second Refund Claim"). This amended Form 1120-X for taxable year 2012 revised your taxable income to \$13,435,861.

The increase in income was due to an increase in revenue of \$2,730,565, the elimination of federal tax expense in the amount of \$5,468,230, and a decrease in Advertising Credits expense from \$9,829,080 to \$4,261,846. However, you offset the \$13,435,861 of income with net operating loss carrybacks from tax years 2013 and 2014 based substantially on the Gross Credit Liability Accrual claimed for 2013 and Advertising Credits expenses claimed for 2014.

Additionally, you still allege that \$4,261,846 of expense is based on entitlement to business deductions for "Advertising Credits expense" allegedly owed to telephone package participants for alleged advertising services. As a result of our examination, we have disallowed your Second Refund Claim in full. The "Advertising Credits expense" claimed on your second Form 1120-X for 2012 in the amount of 4,261,846 as well as the \$972,955,648 of "Gross Credit Liability Accrual" in 2013 and the \$2,442,705,307 of "Advertising Credits expense" for 2014¹ is not allowed because you have not established that you incurred, or if incurred, paid this amount during the year for ordinary and necessary business purposes and that any amount qualifies as a valid business expense or deduction under any provision of the Internal Revenue Code ("IRC"). Our position is based, but not limited to, the following grounds:

The Expenses are Not Ordinary and Necessary Business Expenses

These expenses are not ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business under IRC § 162 because the expenses are neither normal, usual, or customary to your alleged Voice Over Internet ("VoIP") business nor are the expenses appropriate or helpful to the trade or business. The "Gross Credit Liability Accrual" and "Advertising Credits" expenses were simply promises to pay participants/recruiters/promoters by recruiting members or placing ads. Accruing expenses simply for participants placing ads which generated little or no income is not appropriate or helpful to the business.

The Substantiation Requirements for §162 Business Deductions Have Not Been Satisfied

IRC § 162 requires taxpayers to keep and maintain supporting documents for all business expenses, such as invoices and/or canceled checks. You did not provide adequate substantiation of these expenses.

¹ The disallowance of the Gross Credit liability Accrual in 2013 and the Advertising Credits expense in 2014 eliminates net operating losses for tax years 2013 and 2014. Thus, there are no net operating losses available to offset taxable income in 2012.

Attachment to Letter 569

The Expenses Are Not Deductible under IRC § 461 Because They Were Not Paid

The “Gross Credit Liability Accrual” and “Advertising Credits” expenses are not deductible under the IRC § 461 “all events” test because the amounts were not paid nor are likely to be paid.

Estimates are Not Deductible

You relied on estimates to prepare your Form 1120-X. Estimated amounts are not deductible. Therefore, these expenses are disallowed in accordance with Treas. Reg. §1.6001-1, which states that a company “shall keep such permanent books of account or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any return of such tax or information.”

Form **3363**
(Rev. November 1983)

Department of the Treasury — Internal Revenue Service

**Acceptance of Proposed Disallowance of Claim
for Refund or Credit**

Name(s), SSN or EIN, and address of taxpayer(s) (Number, Street, City or Town, State, ZIP Code)

Telexfree, LLC EIN# [REDACTED]
 c/o Stephen Darr, Bankruptcy Trustee
 100 High Street
 23rd Floor
 Boston, MA 02110

Year or Period	Date Claim Filed	Kind of Tax	Amount of Claim	Amount of Claim Disallowed	Amount of Claim Allowed
201212	03/12/2018	Income Tax	692,854	692,854	0

I accept the proposal of the Internal Revenue Service to disallow the claim(s) to the extent described above. This means only that I do not want the Service to consider the claim(s). It does not waive my right to file suit on the disallowance.

If you file this acceptance for a joint return, both you and your spouse must sign the original and duplicate of this form. Sign your name exactly as it appears on the return. If you are acting under power of attorney for your spouse, you may sign as agent for him or her.

For an agent or attorney acting under a power of attorney, a power of attorney must be sent with this form if not previously filed.

For a partnership with excise or employment tax liability, all partners must sign. However, one partner may sign with appropriate evidence of authorization to act for the partnership.

For a person acting in a fiduciary capacity (executor, administrator, trustee), file Form 56, Notice Concerning Fiduciary Relationship, with this form if not previously filed.

For a corporation, enter the name of the corporation followed by the signature and title of the officer(s) authorized to sign.

**Your
Signature**



(Date)

**Spouse's Signature
If A Joint Return
Was Filed**



(Date)

**Taxpayer's
Representative
Sign Here**



(Date)

**Partnership/
Corporate
Name**



Telexfree, LLC

**Partners/
Corporate
Officers
Sign Here**



(Title)

(Date)



(Title)

(Date)

Form **2297**
(Rev. March 1982)

Department of the Treasury-Internal Revenue Service

Waiver of Statutory Notification of Claim DisallowanceI, Telexfree, LLC, [REDACTED] of c/o Stephen Darr, Bankruptcy Trustee
(Name, SSN or EIN) (Number, Street, City or Town, State, ZIP Code)

100 High Street, 23rd Floor, Boston, MA 02110

waive the requirement under Internal Revenue Code section 6532(a)(1) that a notice of claim disallowance be sent to me by certified or registered mail for the claims for credit or refund shown in column (d), below.

I understand that the filing of this waiver is irrevocable and it will begin the 2-year period for filing suit for refund of the claims disallowed as if the notice of disallowance had been sent by certified or registered mail.

Claims

(a) Taxable Period Ended	(b) Kind of Tax	(c) Amount of Claim	(d) Amount of Claim Disallowed
201212	Income Tax	692,854	692,854



If you file this waiver for a joint return, both you and your spouse must sign the original and duplicate of this form. Sign your name exactly as it appears on the return. If you are acting under power of attorney for your spouse, you may sign as agent for him or her.

For an agent or attorney acting under a power of attorney, a power of attorney must be sent with this form if not previously filed.

For a partnership with excise or employment tax liability, all partners must sign. However, one partner may sign with appropriate evidence of authorization to act for the partnership.

For a person acting in a fiduciary capacity (executor, administrator, trustee), file Form 56, Notice Concerning Fiduciary Relationship, with this form if not previously filed.

For a corporation, enter the name of the corporation followed by the signature and title of the officer(s) authorized to sign.

Your Signature  _____ (Date signed) _____Spouse's Signature
If A Joint Return
Was Filed  _____ (Date signed) _____Taxpayer's
Representative
Sign Here  _____ (Date signed) _____Partnership/
Corporate
Name: Telexfree, LLC
Stephen Darr, Bankruptcy TrusteePartners/
Corporate
Officers
Sign Here  _____ (Title) _____ (Date signed) _____ _____ (Title) _____ (Date signed) _____

NOTE - Filing this waiver within 6 months from the date the claim was filed will not permit filing a suit for refund before the 6-month period has elapsed unless a decision is made by the Service within that time disallowing the claims.

The IRS Mission

***Provide America's
taxpayers top
quality service by
helping them
understand and
meet their tax
responsibilities
and by applying
the tax law with
integrity and
fairness to all.***



Department of the Treasury
Internal Revenue Service

www.irs.gov

Publication 3498 (Rev. 11-2004)
Catalog Number 73074S

The Examination Process

Introduction

The Internal Revenue Service (IRS) accepts most federal returns as filed. Some returns, however, are examined, or audited, to determine if income, expenses, and credits are reported accurately.

This publication discusses general rules and procedures we follow in examinations. It explains what happens before, during, and after an examination. It also explains appeal and payment procedures.

As a taxpayer, you have the right to fair, professional, prompt, and courteous service from IRS employees, as outlined in the Declaration of Taxpayer Rights found on page 3.

We must follow the tax rules set forth by Congress in the Internal Revenue Code. We also follow Treasury Regulations, court decisions, and other rules and procedures written to administer the tax laws.

If the examination results in a change to your tax liability, you may ask us to reconsider your case. Some reasons why we may reconsider your case include:

- You are submitting additional information that could result in a change to the additional amount we have determined that you owe;
- You are filing an original delinquent return after we have determined that you owe an additional amount, or;
- You are identifying a mathematical or processing error we made.

You must request reconsideration in writing and submit it to your local IRS office.

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**? Do you have questions or need help
right away? Call us. We are here to
help you.**

For General Information:

For information about a specific examination please
contact the person named on the appointment letter.



For tax information and help:

Call the number on the bill you
received or call us toll free at:

1-800-829-1040 *(for 1040 filers)*

1-800-829-4933 *(for business filers)*

1-800-829-4059 /TDD



For tax forms and publications:

1-800-829-3676

1-800-829-4059 /TDD

1-703-368-9694-Forms by Fax



Internet: www.irs.gov

FTP - [ftp fedworld.gov/pub/](ftp://ftp.fedworld.gov/pub/)

TELENET-iris irs.gov

You'll find answers to frequently asked
tax questions, tax forms on-line,
searchable publications, hot tax
issues, news, and help through e-mail.



If you prefer to write to us . .

Enclose a copy of your tax bill. Print
your name, social security number or
taxpayer identification number, and the
tax form and period shown on your bill.
Write to us at the address shown on
your tax bill.



You may also visit your nearest IRS Office.

You'll find the exact address in your local
phone book under *U.S. Government*

Declaration of Taxpayer Rights

I. Protection of Your Rights

IRS employees will explain and protect your rights as a taxpayer throughout your contact with us.

II. Privacy and Confidentiality

The IRS will not disclose to anyone the information you give us, except as authorized by law. You have the right to know why we are asking you for information, how we will use it, and what happens if you do not provide requested information.

III. Professional and Courteous Service

If you believe that an IRS employee has not treated you in a professional, fair, and courteous manner, you should tell that employee's supervisor. If the supervisor's response is not satisfactory, you should write to the IRS Director for your Area or the Center where you file your return.

IV. Representation

You may either represent yourself or, with proper written authorization, have someone else represent you. Your representative must be a person allowed to practice before the IRS, such as an attorney, certified public accountant, or enrolled agent (a person enrolled to practice before the IRS). If you are in an interview and ask to consult such a person, then we must stop and reschedule the interview in most cases.

You can have someone accompany you at an interview. You may make sound recordings of any meetings with our examination, appeal, or collection personnel, provided you tell us in writing 10 days before the meeting.

V. Payment of Only the Correct Amount of Tax

You are responsible for paying only the correct amount of tax due under the law—no more, no less. If you cannot pay all of your tax when it is due, you may be able to make monthly payments.

VI. Help with Unresolved Tax Problems

The Taxpayer Advocate Service can help you if you have tried unsuccessfully to resolve a problem with the IRS. Your local Taxpayer Advocate can offer you special help if you have a significant hardship as a result of a tax problem. For more information, call toll-free, 1-877-777-4778 (1-800-829-4059 for TTY/TDD) or write to the Taxpayer Advocate at the IRS office that last contacted you.

VII. Appeals and Judicial Review

If you disagree with us about the amount of your tax liability or certain collection actions, you have the right to ask the Appeals Office to review your case. You may also ask a court to review your case.

VIII. Relief from Certain Penalties and Interest

The IRS will waive penalties when allowed by law if you can show you acted reasonably and in good faith or relied on the incorrect advice of an IRS employee. We will waive interest that is the result of certain errors or delays caused by an IRS employee.

Your Return Is Going To Be Examined.

Before the Examination

We accept most taxpayers' returns as filed. If we inquire about your return or select it for examination, it does not suggest that you are dishonest. The inquiry or examination may or may not result in more tax. We may close your case without change or you may receive a refund.

The process of selecting a return for examination usually begins in one of two ways. One way is to use computer programs to identify returns that may have incorrect amounts. The programs may be based on information returns, such as Forms 1099 or W-2, on studies of past examinations, or on certain issues identified by other special projects. Another way is to use information from compliance projects that indicates a return may have incorrect amounts. These sources may include newspapers, public records, and individuals. If we determine the information is accurate and reliable, we may use it to select a return for examination.

Publication 556, *Examination of Returns, Appeal Rights, and Claims for Refund*, explains the rules and procedures that we follow in examinations. The following sections give an overview of how we conduct examinations.

During the Examination

Examinations by Mail

Some examinations are conducted entirely by mail. If the examination is conducted by mail, you'll receive a letter from us asking for additional information about certain items shown on your return, such as income, expenses, and itemized deductions.

If the examination is conducted by mail, you can:

1. Act on your own behalf. (In the case of a jointly filed return, either spouse can respond or both spouses can send a joint response.)
2. Have someone represent you in correspondence with us. This person must be an attorney, accountant, enrolled agent, an enrolled actuary, or the person who prepared the return and signed it as the preparer. If you choose to have someone represent you, you must furnish us with written authorization. Make this authorization on Form 2848, *Power of Attorney and Declaration of Representative*.

Note: You may obtain any of the forms and publications referenced in this publication by calling 1-800-829-3676.

Examinations in Person

An examination conducted in person begins when we notify you that your return has been selected. We will tell you what information you need to provide at that time. If you gather the information before the examination, we may be able to complete it more easily and in a shorter time.

If the examination is conducted in person, it can take place in your home, your place of business, an IRS office, or the office of your attorney, accountant, or enrolled agent (a person enrolled to practice before the IRS). If the time or place is not convenient for you, the examiner will try to work out something more suitable.

Your Return Is Going To Be Examined. (cont.)

If the examination is conducted in person, you can:

1. Act on your own behalf. *(In the case of a jointly filed return, either spouse or both can attend the interview.)* If you are acting on your own behalf, you may leave to consult with your representative. We will suspend the interview and reschedule the examination. We cannot suspend the interview if we are conducting it as a result of your receiving an administrative summons.
2. Have someone accompany you, either to support your position or to witness to the proceedings.
3. Accompany someone who will represent you. This person must be an attorney, accountant, enrolled agent, an enrolled actuary, or the person who prepared the return and signed it as the preparer.
4. Have your representative act for you and not be present at the audit yourself. If you choose to have someone represent you in your absence, you must furnish us with written authorization. Make this authorization on **Form 2848, Power of Attorney and Declaration of Representative**.

How to Stop Interest from Accumulating

During your examination, if you think you will owe additional tax at the end of the examination, you can stop interest from accumulating by paying all or part of the amount you think you will owe. Interest will stop accumulating on the part you pay when the IRS receives your money. Interest will only be charged on the tax, penalties, and interest that are unpaid on the date they are assessed.

Consents to Extend the Statute of Limitations

We try to examine tax returns as soon as possible after they are filed, but occasionally we may request that you extend the statute of limitations of your tax return.

A return's statute of limitation generally limits the time we have to examine it and assess tax. Assessments of tax must be made within 3 years after a return is due or filed, whichever is later. We can't assess additional tax or make a refund or credit *(unless you filed a timely claim)* after the statute of limitations has expired. Also, if you disagree with the results of the examination, you can't appeal the items you disagree with unless sufficient time remains on the statute. Because of these restrictions, if there isn't much time remaining to examine your return, assess additional taxes, and/or exercise your appeal rights, you have the opportunity to extend the statute of limitations. This will allow you additional time to provide further documentation to support your position, request an appeal if you do not agree with our findings, or to claim a tax refund or credit. It also allows the Service time to complete the examination, make any additional assessment, if necessary, and provide sufficient time for processing.

A written agreement between you and the Service to extend the statutory period of a tax return is called a "consent." Consents can be used for all types of tax except estate tax.

There are two basic kinds of consent forms. One sets a specific expiration date for the extension, and the other for an indefinite period of time. Either type of consent may be limited by restrictive conditions. The use of a restricted consent is to allow the statute to expire with regard to all items on the return except those covered by the restrictive language.

If the statute of limitations for your tax return is approaching, you may be asked to sign a consent. You may:

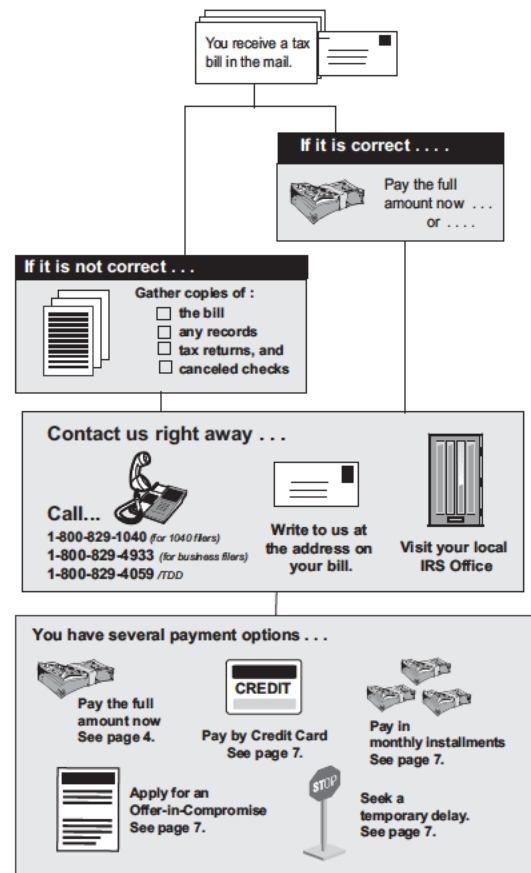
1. Refuse to extend the statute of limitations;
2. Limit or restrict the consent to particular issues, or
3. Limit the extension to a particular period of time.

The consent will be sent or presented to you with a letter explaining this process and **Publication 1035, Extending the Tax Assessment Period**. For further information, refer to this publication.

Results of the Examination

If we accept your return as filed, you will receive a letter stating that the examiner proposed no changes to your return. You should keep this letter with your tax records.

If we don't accept your return as filed, we will explain any proposed changes to you and your authorized representative. It is important that you understand the reasons for any proposed changes; don't hesitate to ask about anything that is unclear to you.

What to Do When You Receive a Bill from the IRS

What To Do If You Agree or Disagree with the Examination Results

If You Agree

If you agree with a proposed *increase* to tax, you can sign an agreement form and pay any additional tax you may owe. You must pay interest and applicable penalties on any additional balance due. If you pay when you sign the agreement, interest is generally figured from the due date of your return to the date of your payment.

If you do not pay the additional tax and interest, you will receive a bill (See *"What To do When You Receive a Bill from the IRS"* on page 4.) If the amount due (including interest and applicable penalties) is less than \$100,000 and you pay it within 21 business days, we will not charge more interest or penalties. If the amount is \$100,000 or more, the period is reduced to 10 calendar days. If you can't pay the tax due at the end of the examination, you may pay whatever amount you can and request an installment agreement for the balance. (See *"Setting up an Installment Agreement"* on page 7.)

If you are entitled to a refund, you will receive it sooner if you sign the agreement form at the end of the examination. You will also be paid interest on the refund.

If You Do Not Agree

If you do not agree with the proposed changes, the examiner will explain your appeal rights. If your examination takes place in an IRS office, you may request an immediate meeting with the examiner's supervisor to explain your situation. You may also enter into an *Agreement to Mediate* to help resolve disputes through Fast Track Mediation services. (See *next column*.) Mediation can take place at this meeting or afterwards. If an agreement is reached, your case will be closed.

If you cannot reach an agreement with the supervisor at this meeting, or if the examination took place outside an IRS office or was conducted through correspondence with an IRS Campus employee, the examiner will prepare a report explaining your position and ours. The examiner will forward your case to the Area office for processing.

You will receive:

- A letter (known as a 30-day letter) notifying you of your rights to appeal the proposed changes within 30 days,
- A copy of the examiner's report explaining the proposed changes, and
- An agreement or a waiver form.

You generally have 30 days from the date of the 30-day letter to tell us whether you will accept the proposed changes or appeal them. The letter will explain what steps you should take, depending on what action you choose. Be sure to follow the instructions carefully. Appeal rights are explained following this section.



Caution

If you do not respond to the 30-day letter, or if you respond but do not reach an agreement with an appeals officer, we will send you a 90-day letter, also known as a *Notice of Deficiency*. This is a legal document that explains the proposed changes and the amount of the proposed tax increase. You will have 90 days (150 days if it is addressed to you outside the United States) from the date of this notice to file a petition with the Tax Court. If you do not petition the Tax Court you will receive a bill for the amount due.

Fast Track Mediation Services

If you do not agree with any or all of the IRS findings, you may request Fast Track Mediation services to help you resolve disputes resulting from the examination (audits). Fast Track Mediation offers an expedited process with a trained mediator, who will help facilitate communication, in a neutral setting. The mediator will work with you and the IRS to understand the nature of the dispute. The purpose is to help the two of you reach a mutually satisfactory resolution that is consistent with the applicable law. The mediator has no authority to require either party to accept any resolution. You may withdraw from the mediation process anytime. If any issues remain unresolved you will retain all of your usual appeal rights.

Most cases qualify for Fast Track Mediation. To begin the process, you may request the examiner or IRS representative to arrange a mediation meeting. Both you and the IRS representative must sign a simple *Agreement to Mediate* form. A mediator will then be assigned. Generally, within a week, the mediator will contact you and the IRS representative to schedule a meeting. After a brief explanation of the process, the mediator will discuss with you when and where to hold the mediation session.

For additional information, refer to Publication 3605, *Fast Track Mediation-A Process for Prompt Resolution of Tax Issues*.

How Do You Appeal a Decision?

The Appeal System

Because people sometimes disagree on tax matters, the Service has an appeal system. Most differences can be settled within this system without going to court.

Your reasons for disagreeing must come within the scope of tax laws, however. For example, you cannot appeal your case based only on moral, religious, political, constitutional, conscientious, or similar grounds.

If you do not want to appeal your case within the IRS, you may take your case directly to tax court.

Appeal Within the IRS

You may appeal our tax decision to a local appeals office, which is separate and independent of the IRS Office taking the action you disagree with. An appeals office is the only level of appeal within the IRS. Conferences with Appeals Office personnel may be conducted in person, through correspondence, or by telephone with you or your authorized representative.

If you want to have a conference with an appeals officer, follow the instructions in the letter you received. We will send your conference request letter to the appeals office to arrange for a conference at a convenient time and place. You or your qualified representative should be prepared to discuss all disputed issues at the conference. Most differences are settled at this level. Only attorneys, certified public accountants or enrolled agents are allowed to represent a taxpayer before Appeals. An unenrolled preparer may be a witness at the conference, but not a representative.

If you want to have a conference with an appeals officer, you may also need to file either a **small case request** or a **formal written protest** with the contact person named in the letter you receive.

Whether you file a small case request or a formal written protest depends on several factors.

Making a Small Case Request

You may make a **small case request** if the total amount of tax, penalties, and interest for *each* tax period involved is \$25,000 or less, and you do not meet one of the exceptions below for which a formal protest is required. If more than one tax period is involved and *any* tax period exceeds the \$25,000 threshold, you must file a formal written protest for all periods involved. The total amount includes the proposed increase or decrease in tax and penalties or claimed refund. For an *Offer-in-Compromise*, include total unpaid tax, penalty, and interest due.

To make a small case request, follow the instructions in our letter to you by sending a brief written statement requesting an appeals conference. Indicate the changes you do not agree with and the reasons you do not agree with them.



Caution

Be sure to send the protest within the time limit specified in the letter you received.

You must file a formal written protest

- If the total amount of tax, penalties, and interest for any tax period is more than \$25,000;
- In all partnership and S corporation cases, regardless of the dollar amount;
- In all employee plan and exempt organization cases, regardless of the dollar amount;
- In all other cases, unless you qualify for other special appeal procedures, such as requesting appeals consideration of liens, levies, seizures, or installment agreements.
(See Publication 1660, *Collection Appeal Rights*, for more information on special collection appeals procedures.)

Filing a Formal Protest

When a **formal protest** is required, send it within the time limit specified in the letter you received. Include in your protest:

- Your name and address, and a daytime telephone number.
- A statement that you want to appeal the IRS findings to the Appeals Office.
- A copy of the letter showing the proposed changes and findings you do not agree with (*or the date and symbols from the letter.*)
- The tax periods or years involved.
- A list of the charges that you do not agree with, and why you do not agree.
- The facts supporting your position on any issue that you do not agree with.
- The law or authority, if any, on which you are relying.
- You must sign the written protest, stating that it is true, under the penalties of perjury as follows:

"Under the penalties of perjury, I declare that I examined the facts stated in this protest, including any accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete."

If your representative prepares and signs the protest for you, he or she must substitute a declaration stating:

- That he or she submitted the protest and accompanying documents and;
- Whether he or she knows personally that the facts stated in the protest and accompanying documents are true and correct.

We urge you to provide as much information as you can, as this will help us speed up your appeal. This will save you both time and money.

Additional information about the Appeals process may be found in **Publication 5, Your Appeals Rights and How to Prepare a Protest if you Don't Agree**.

After the Examination

Payment Options

You cannot pay all that you owe now

If you cannot pay all your taxes now, pay as much as you can. By paying now, you reduce the amount of interest and penalty you owe. Then immediately call, write, or visit the nearest IRS office to explain your situation. After you explain your situation, we may ask you to fill out a Collection Information Statement. If you are contacting us by mail or by telephone, we will mail the statement to you to complete and return to us. This will help us compare your monthly income with your expenses so we can figure the amount you can pay. We can then help you work out a payment plan that fits your situation. This is known as an installment agreement.

Payment by credit card

Individual taxpayers may make credit (*and debit*) card payments on tax liabilities (*including installment agreement* payments) by phone or Internet. Payments may be made to the United States Treasury through authorized credit card service providers.

The service providers charge a convenience fee based on the payment amount. You will be informed of the convenience fee amount before the credit card payment is authorized. This fee is in addition to any charges, such as interest, that may be assessed by the credit card issuer. Visit www.irs.gov to obtain a list of authorized service providers and to obtain updated information on credit card payment options.

Note: You can use debit cards issued by VISA and MasterCard when making tax payments through the participating service providers. However, the service providers and card issuers treat debit cards and credit cards equally for the purpose of processing electronic tax payments. Therefore, debit card users are charged the same fee traditionally associated with credit card transactions

Payment by Electronic Federal Tax Payment System (EFTPS)

EFTPS is an Electronic Federal Tax Payment System developed by the Internal Revenue Service and Financial Management Service (FMS).

The system allows federal taxes to be paid electronically. The system allows the use of the Internet at www.eftps.gov or telephone to initiate tax payments directly. EFTPS payments may also be made through your local financial institution. The service is convenient, secure and saves time.

You may enroll in EFTPS through the website at www.eftps.gov or by completing a form available from EFTPS customer service at (800) 555-4477 or (800) 945-8400.

Setting up an installment agreement

Installment agreements allow you to pay your full debt in smaller, more manageable amounts. Installment agreements generally require equal monthly payments. The amount and number of your installment payments will be based on the amount you owe and your ability to pay that amount within the time we can legally collect payment from you.

You should be aware, however, that an installment agreement is more costly than paying all the taxes you owe now. Like revolving credit arrangements, we charge interest on the unpaid portion of the debt. Penalties also continue to accumulate on installment agreements.

If you want to pay off your tax debt through an installment agreement, call the number shown on your bill. If you owe:

- \$25,000 or less in tax, we will tell you what you need to do to set up the agreement;
- More than \$25,000, we may still be able to set up an installment agreement for you, but we may also ask for financial information to help us determine your ability to pay.

Even if you set up an installment agreement, we may still file a Notice of Federal Tax Lien to secure the government's interest until you make your final payment.

Note: We cannot take any collection actions affecting your property while we consider your request for an installment agreement, while your agreement is in effect, for 30 days after we reject your request for an agreement, or for any period while you appeal the rejection.

If you arrange for an installment agreement, you may pay with:

- Personal or business checks, money orders, or certified funds (*all made payable to the U.S. Treasury*),
- Credit and debit cards,
- Payroll deductions your employer takes from your salary and regularly sends to IRS, or
- Electronic transfers from your bank account or other similar means.

Apply for an Offer-in-Compromise

In some cases, we may accept an *Offer-in-Compromise* to settle an unpaid tax account, including any penalties and interest. With this kind of arrangement, we can accept less than the full amount you owe when it is doubtful we will be able to collect the entire amount due.

Offers in compromise are also possible if collection action would create an economic hardship. You may want to discuss these options with your examiner.

Temporarily Delay the Collection Process

If we determine that you can't pay *any* of your tax debt, we may temporarily delay collection until your financial condition improves. You should know that if we delay collecting from you, your debt will increase because penalties and interest are charged until you pay the full amount. During a temporary delay, we will again review your ability to pay. We may also file a *Notice of Federal Tax Lien*, to protect the government's interest in your assets. See Publication 594, *The IRS Collection Process*.

After the Examination (cont.)

Innocent Spouse Relief

If you filed a joint tax return, you are jointly and individually responsible for the tax and any interest or penalty due on the joint return, even if you later divorce. In some cases, a spouse may be relieved of the tax, interest, and penalties on a joint return.

You can ask for relief no matter how small the liability.

Three types of relief are available.

- Innocent spouse relief - may apply to all joint filers;
- Separation of liability - may apply to joint filers who are divorced, widowed, legally separated, or have not lived together for the past 12 months;
- Equitable relief - applies to all joint filers.

Innocent spouse relief and separation of liability apply only to items incorrectly reported on the return. If a spouse does not qualify for innocent spouse relief or separation of liability, the IRS may grant equitable relief.

Each type of relief is different and each has different requirements. You must file Form 8857, *Request for Innocent Spouse Relief*, to request any of these methods of relief. Publication 971, *Innocent Spouse Relief*, explains each type of relief, who may qualify, and how to request relief.

You Must Contact Us

It is important that you contact us regarding any correspondence you receive from us. If you do not pay your bill or work out a payment plan, we are required by law to take further collection actions.

What If You Believe Your Bill is Wrong



Caution

If you believe your bill is wrong, let us know as soon as possible. Call the number on your bill, write to the IRS office that sent you the bill, call 1-800-829-1040 (for 1040 filers), 1-800-829-4933 (for business filers), 1-800-829-4059 /TDD, or visit your local IRS office.

To help us correct the problem, gather a copy of the bill along with copies of any records, tax returns, and canceled checks, etc., that will help us understand why you believe your bill is wrong.

If you write to us, tell us why you believe your bill is wrong. With your letter, include copies of all the documents you gathered to explain your case. Please do not send original documents. If we find you are correct, we will adjust your account and, if necessary, send you a corrected bill.

Privacy Act Statement

The Privacy Act of 1974 says that when we ask you for information, we must first tell you our legal right to ask for the information, why we are asking for it, and how it will be used. We must also tell you what could happen if you do not provide it and whether or not you must respond under the law.

This notice applies to tax returns and any papers filed with them. It also applies to any questions we need to ask you so we can complete, correct, or process your return; figure your tax; and collect tax, interest, or penalties.

Our legal right to ask for information is found in Internal Revenue Code sections 6001, 6011, and 6012(a), and their regulations. They say that you must file a return or statement with us for any tax you are liable for. Your response is mandatory under these sections.

Code section 6109 and its regulations say that you must show your social security number or individual taxpayer identification number on what you file. You must also fill in all parts of the tax form that apply to you. This is so we know who you are, and can process your return and papers. You do not have to check the boxes for the Presidential Election Campaign Fund.

We ask for tax return information to carry out the U.S. tax laws. We need it to figure and collect the right amount of tax.

We may give the information to the Department of Justice and to other Federal agencies, as provided by law. We may also give it to cities, states, the District of Columbia, and U.S. Commonwealths or possessions to carry out their tax laws. And we may give it to certain foreign governments under tax treaties they have with the United States.

We may also disclose this information to Federal, state, or local agencies that investigate or respond to acts or threats of terrorism or participate in intelligence or counterintelligence activities concerning terrorism.

If you do not file a return, do not give us the information we ask for, or provide fraudulent information, the law says that we may have to charge you penalties and, in certain cases, subject you to criminal prosecution. We may also have to disallow the exemptions, exclusions, credits, deductions, or adjustments shown on your tax return. This could make your tax higher or delay any refund. Interest may also be charged.

Please keep this notice with your records. You may want to refer to it if we ask you for other information. If you have questions about the rules for filing and giving information, please call or visit any Internal Revenue Service office.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF MASSACHUSETTS

In Re:)	Chapter 11
)	
TELEXFREE, LLC,)	Case No. 14-40987-MSH
TELEXFREE, INC., and)	Case No. 14-40988-MSH
TELEXFREE FINANCIAL, INC.,)	Case No. 14-40989-MSH
)	
<u>Debtors.</u>)	Jointly Administered
)	
STEPHEN DARR, AS HE IS THE TRUSTEE)	
OF THE CHAPTER 11 ESTATES OF EACH)	
OF THE DEBTORS,)	
)	Adv. Proc. No. 18-04091
Plaintiff and)	
Counterclaim Defendant,)	Judge Melvin S. Hoffman
)	
v.)	
)	
UNITED STATES OF AMERICA,)	
DEPARTMENT OF THE TREASURY,)	
INTERNAL REVENUE SERVICE,)	
)	
Defendant and)	
<u>Counterclaim Plaintiff.</u>)	

Exhibit

7

**RESPONSE BY TRUSTEE TO DEFENDANT/COUNTERCLAIM
PLAINTIFF UNITED STATES' INTERROGATORIES**

Stephen Darr, the Plaintiff and Counterclaim Defendant and the Chapter 11 Trustee (the "Trustee") of TelexFree LLC, TelexFree Inc., and TelexFree Financial Inc., in answer to the interrogatories contained in the Defendant/Counterclaim Plaintiff United States' Interrogatories submitted on May 28, 2019, pursuant to Federal Rules of Bankruptcy Procedure 7026 and 7033, hereby responds as follows:

GENERAL OBJECTIONS AND RESPONSES

1. The Trustee objects to the Interrogatory to the extent that it may be construed as seeking to elicit the disclosure of information or communications that are subject to a claim of privilege, including without limitation, the attorney-client, spousal and joint defense privileges and work-product protection. The Trustee claims such privilege to the extent implicated by the Interrogatory.
2. The Trustee objects to the Interrogatory to the extent that it is compound, overbroad, and/or unduly burdensome.
3. The Trustee objects to the Interrogatory to the extent that the information sought may be derived or ascertained from records which have already been produced or are public information, and the burden of deriving or ascertaining the answer is substantially the same for the United States as for the Trustee.
4. The Trustee objects to the Interrogatory to the extent it contains vague, ambiguous, conclusory, or undefined terms.
5. The Trustee hereby reserves the right to supplement, modify or add to any Answer to the Interrogatory to the extent required by Fed.R.Bankr.P. 26(e).

ANSWERS TO INTERROGATORIES

INTERROGATORY NO. 1:

On the 2012 amended tax return, you reported “gross receipts or sales” (Line 1a) in the amount of \$18,220,915. For this item, please identify:

- a. How much of the amount reported was received in cash;
- b. How much of the amount reported was based on credits redeemed by users/participants;
- c. How much of the amount reported was earned by selling the voice over internet (“VoIP”) service; and,
- d. How much of the amount reported was earned by selling membership plans to users/participants.

RESPONSE NO. 1:

Of the gross receipts reported by the Trustee in the 2012 amended tax return:

- a. \$2,943,517 was received by TelexFree in cash;
- b. \$3,407,954 was based upon credits redeemed by participants;
- c. \$87,525 was earned through the sale by TelexFree of VoIP service; and
- d. \$6,152,768 was earned by the sale by TelexFree of membership plans to participants.

INTERROGATORY NO. 2:

On the 2012 amended tax return, you reported a deduction (included as “other deductions” on Line 26), which were explained on Statements 1 and 1A, for “gross credit liability accrual” in the amount of \$4,261,846. For this deduction, please identify:

- a. How much of the amount claimed was for credits redeemed by users/participants for cash; and,
- b. How much of the amount claimed was for credits redeemed by users/participants to satisfy invoices from the Debtors.

RESPONSE NO. 2:

The deduction in this interrogatory is not affected by redemption of credits. In any case, the amount of credit redemptions in 2012 was \$4,261,846. Of that amount, \$853,892 in credits were redeemed for cash, and \$3,407,954 in credits were redeemed to satisfy invoices from TelexFree.

INTERROGATORY NO. 3:

On the 2013 amended tax return, you reported “gross receipts or sales” (Line 1a) in the amount of \$1,173,886,556. For this item, please identify:

- a. How much of the amount reported was received in cash;

- b. How much of the amount reported was based on credits redeemed by users/participants;
- c. How much of the amount reported was earned by selling the VoIP service; and,
- d. How much of the amount reported was earned by selling membership plans to users/participants.

RESPONSE NO. 3:

Of the gross receipts reported by the Trustee in the 2013 amended tax return:

- a. \$156,227,156 was received by TelexFree in cash;
- b. \$843,475,755 was based upon credits redeemed by participants;
- c. \$65,633,371 was earned through the sale by TelexFree of VoIP service; and
- d. \$934,252,624 was earned by the sale by TelexFree of membership plans to participants.

INTERROGATORY NO. 4:

On the 2013 amended tax return, you reported a deduction (included as “other deductions” on Line 26), which were explained on Statements 3 and 3A, for “gross credit liability accrual” in the amount of \$972,955,648. For this deduction, please identify:

- a. How much of the amount claimed was for credits redeemed by users/participants for cash; and,
- b. How much of the amount claimed was for credits redeemed by users/participants to satisfy invoices from the Debtors.

RESPONSE NO. 4:

The deduction in this interrogatory is not affected by redemption of credits. In any case,

the amount of credit redemptions in 2013 was \$911,620,550. Of that amount, \$68,144,795 in credits were redeemed for cash, and \$843,475,755 in credits were redeemed to satisfy invoices from TelexFree.

INTERROGATORY NO. 5:

On the 2014 amended tax return, you reported "gross receipts or sales" (Line 1a) in the amount of \$2,067,416,945. For this item, please identify:

- a. How much of the amount reported was received in cash;
- b. How much of the amount reported was based on credits redeemed by users/participants;
- c. How much of the amount reported was earned by selling the VoIP service; and,
- d. How much of the amount reported was earned by selling membership plans to users/participants.

RESPONSE NO. 5:

Of the gross receipts reported by the Trustee in the 2014 amended tax return:

- a. \$200,621,569 was received by TelexFree in cash;
- b. \$1,866,795,376 was based upon credits redeemed by participants;
- c. \$404,504,071 was earned through the sale by TelexFree of VoIP service;
- d. \$1,662,962,874 was earned by the sale by TelexFree of membership plans to participants.

INTERROGATORY NO. 6:

On the 2014 amended tax return, you reported a deduction (included as “other deductions” on Line 26), which were explained on Statements 3 and 3A, for “gross credit liability accrual” in the amount of \$2,442,705,607. For this deduction, please identify:

- a. How much of the amount claimed was for credits redeemed by users/participants for cash; and,
- b. How much of the amount claimed was for credits redeemed by users/participants to satisfy invoices from the Debtors.

RESPONSE NO. 6:

The deduction in this interrogatory is not affected by redemption of credits. In any case, the amount of credit redemptions in 2014 was \$1,950,007,485. Of that amount, \$83,212,109 in credits were redeemed for cash, and \$1,866,795,376 in credits were redeemed to satisfy invoices from TelexFree.

INTERROGATORY NO. 7:

On the 2014 amended tax return, you reported a deduction (included as “other deductions on Line 26), which was explained on Statement 3, for “165 loss SEC asset forfeiture” in the amount of \$148,000,000. For this deduction, please identify the assets and values that make up this reported loss.


RESPONSE NO. 7:

The information contained in the 2014 amended tax return for casualty loss was based upon information provided by the United States, including statements made in the Sentencing Memorandum filed on March 16, 2017 [document number 332] in criminal action 14-CR-40028-TSH, United States District Court for the District of Massachusetts. In further answering, the

Trustee states that on or about June 18, 2019, the Trustee received the sum of \$145,471,294 from the United States Treasury, further confirming the amount of the casualty loss, and understands that additional funds will be turned over to the Trustee at a later date.

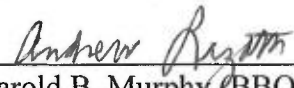
Signed under the pains and penalties of perjury.

Date: 6/24/19


STEPHEN DARR
Plaintiff/Counterclaim Defendant

As to Objections:

STEPHEN B. DARR,
CHAPTER 11 TRUSTEE,
By his attorneys,


Harold B. Murphy (BBO #362610)
Charles R. Bennett, Jr. (BBO #037380)
Andrew G. Lizotte (BBO #559609)
Murphy & King, Professional Corporation
One Beacon Street
Boston, MA 02108
(617) 423-0400

Dated: June 24, 2019
759872



Department
Internal Revenue
Large Business
15 New Sudbury
Boston, MA 02116

Telexfree, LLC
265 Franklin Street
Marlborough, MA 01752

PS Form 3800, August 2008

See Reverse for Instructions

MA 02110-3113

TELEXFREE LLC

265 FRANKLIN STREET FLOOR 2

MA 02110-3113

Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Postmark Name	
Qualified Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$

U.S. Postal Service

CERTIFIED MAIL[®] RECEIPT

(Domestic Mail Only; No Insurance Coverage Provided)

For delivery information visit our website at www.usps.com

OFFICIAL USE

Date: 10/31/2017

Taxpayer ID number: [REDACTED]

Form: 1120

Person to contact: Richard Theodore

Contact telephone number: 617 316 2385

Contact fax number: 617 316 2525

Employee ID number: 04004769

Last day to file petition with US tax court: 01/29/2018

Certified Mail

Tax Year Ended:

Deficiency:

Increase in tax

300,507,248

IRC 6651(a)(1)

75,126,857

Exhibit

8

COPY

Dear Telexfree, LLC:

Why we are sending you this letter

We determined that you owe additional tax or other amounts, or both, for the tax year or years identified above. This letter is your **Notice Of Deficiency**, as required by law. The enclosed Form 4549-A, *Income Tax Discrepancy Adjustments* or Form 5278, *Statement - Income Tax Changes*, shows how we figured the deficiency.

If you wish to challenge this determination

If you want to challenge this determination in court before making any payment, you have 90 days from the date of this letter (150 days if this letter is addressed to you outside of the United States) to file a petition with the United States Tax Court to reconsider the deficiency.

Information you will need

If you have recently sought bankruptcy relief by filing a petition in bankruptcy court, see enclosed Notice 1421, *How Bankruptcy Affects Your Right to File a Petition in Tax Court in Response to a Notice of Deficiency*.



Department
Internal Revenue Service
Large Business
15 New Sudbury Street
Boston, MA 02108

Telexfree, LLC
c/o Andrew
Murphy &
One Beacon Street
Boston, MA 02108

Certified Mail

Tax Year Ended:

Deficiency:
Increase in tax

IRC 6651(a)(1)

300,507,248

75,126,857

U.S. Postal Service CERTIFIED MAIL [®] RECEIPT (Domestic Mail Only: No Insurance Coverage Provided)	
For delivery information visit our website at www.usps.com	
OFFICIAL USE	
Postage	\$
Certified Fee	
Return Receipt Fee (Endorsement Required)	
Registered Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$
Postmark Date	
Sent to TELEFREE LLC c/o ANDREW & LIZOTIE Street, Apt. No.: MURPHY & SKENING or PO Box No. ONE BEACON STREET City, State, Zip+4 BOSTON MA 02108	

Date: 10/31/2017
 Taxpayer ID number: [REDACTED]
 Form: 1120
 Person to contact: Richard Theodore
 Contact telephone number: 617 316 2385
 Contact fax number: 617 316 2525
 Employee ID number: 04004769
 Last day to file petition with US tax court: 01/29/2018

COPY

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Department of the Treasury
Internal Revenue Service
Large Business and International
15 New Sudbury Street
Boston, MA 02203

Telexfree, LLC
c/o Harold B Murphy
Murphy & King PC
One Beacon Street
Boston, MA 02108

Date:
10/31/2017
Taxpayer ID number (last 4 digits):
[REDACTED]
Kind of tax:
Income
Tax periods ended:
December 31, 2012
Amount of claim:
692,854
Date claim received:
09/13/2016
Person to contact:
Richard Theodore
Contact telephone number:
617 316 2385
Employee ID number:

 COPY

Dear Telexfree, LLC

We are sorry, but we cannot allow your claim for an adjustment to your tax, for the reasons stated below. This letter is your legal notice that we have fully disallowed your claim.

If you wish to bring suit or proceedings for the recovery of any tax, penalties, or other moneys for which this disallowance notice is issued, you may do so by filing suit with the United States District Court having jurisdiction, or the United States Claims Court. The law permits you to do this within 2 years from the mailing date of this letter. However, if you signed a *Waiver of Statutory Notification of Claim Disallowance*, Form 2297, the period for bringing suit began to run on the date you filed the waiver.

We have enclosed Publication 5, *Your Appeal Rights and How to Prepare a Protest If You Don't Agree*, and Publication 594, *The IRS Collection Process*, if additional tax is due.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter. Thank you for your cooperation.

Sincerely,

John Koskinen
Commissioner by Susan Lamastro, Territory Manager

Enclosures:
Publication 5
Publication 594

Reasons for disallowance:

See Attachment



Department of the
Internal Revenue
Large Business and
Unemployment Tax
15 New Sudbury Street
Boston, MA 02203

Telexfree, LLC
c/o Harold B. Murphy
Murphy & King P.C.
One Beacon Street
Boston, MA 02108

Certified Mail

Tax Year Ended:

December 31, 2013

Deficiency:

300,507,248

Increase in tax

IRC 6651(a)(1)

75,126,857

U.S. Postal Service® CERTIFIED MAIL™ RECEIPT (Domestic Mail Only: No Insurance Coverage Provided)	
For delivery information visit our website at www.usps.com	
OFFICIAL USE	
Postage	\$
Certified Fee	
Return Receipt Fee (disbursement required)	
Insured Delivery Fee (endorsement required)	
Total Postage & Fees	\$
Postmark Here	
Sent to TELEXFREE LLC c/o HAROLD B. MURPHY MURPHY & KING P.C. ONE BEACON STREET BOSTON MA 02108	

Date: 0/31/2017
 Taxpayer ID number:
 Form: 120
 Person to contact: Richard Theodore
 Contact telephone number: 17 316 2385
 Contact fax number: 17 316 2525
 Employee ID number: 4004769
 Last day to file petition with US tax court: 1/29/2018

COPY

Dear Telexfree, LLC:

Why we are sending you this letter

We determined that you owe additional tax or other amounts, or both, for the tax year or years identified above. This letter is your **Notice Of Deficiency**, as required by law. The enclosed Form 4549-A, *Income Tax Discrepancy Adjustments* or Form 5278, *Statement - Income Tax Changes*, shows how we figured the deficiency.

If you wish to challenge this determination

If you want to challenge this determination in court before making any payment, you have 90 days from the date of this letter (150 days if this letter is addressed to you outside of the United States) to file a petition with the United States Tax Court to reconsider the deficiency.

Information you will need

If you have recently sought bankruptcy relief by filing a petition in bankruptcy court, see enclosed Notice 1421, *How Bankruptcy Affects Your Right to File a Petition in Tax Court in Response to a Notice of Deficiency*.

Telexfree, LLC
c/o Stephen B. Darr
Huron Consulting S
100 High Street 23r
Boston, MA 02110

Certified Mail

Tax Year Ended:

Deficiency:

Increase in tax

IRC 6651(a)(1)

75,126,857



COPY

Dear Telexfree, LLC:

Why we are sending you this letter

We determined that you owe additional tax or other amounts, or both, for the tax year or years identified above. This letter is your **Notice Of Deficiency**, as required by law. The enclosed Form 4549-A, *Income Tax Discrepancy Adjustments* or Form 5278, *Statement - Income Tax Changes*, shows how we figured the deficiency.

If you wish to challenge this determination

If you want to challenge this determination in court before making any payment, you have 90 days from the date of this letter (150 days if this letter is addressed to you outside of the United States) to file a petition with the United States Tax Court to reconsider the deficiency.

Information you will need

If you have recently sought bankruptcy relief by filing a petition in bankruptcy court, see enclosed Notice 1421, *How Bankruptcy Affects Your Right to File a Petition in Tax Court in Response to a Notice of Deficiency*.

You can get a copy of the rules for filing a petition and a petition form by writing to the following address:

United States Tax Court
400 Second Street, NW
Washington, DC 20217

- The Tax Court has a simplified procedure for small tax cases when the dispute for each tax year is \$50,000 or less.
- If you use this simplified procedure, you cannot challenge the Tax Court's decision. You can get information on the simplified procedure for small cases from the Tax Court by writing to the court at the address above or from the court's internet site at www.ustaxcourt.gov.
- If you file a petition for multiple tax years and the dispute for any one or more of the tax years exceeds \$50,000, this simplified procedure is not available to you.

The law regarding married couples

The law requires separate notices for husbands and wives. Both must sign and file the petition or each must file a separate, signed petition if this letter is addressed to both husband and wife, and both want to petition the Tax Court.

If only one spouse is in bankruptcy at the time this letter was issued or files a bankruptcy petition after the date of this letter, the bankruptcy automatic stay does not prohibit the spouse who is not in bankruptcy from filing a petition with Tax Court. The bankruptcy automatic stay of the spouse seeking bankruptcy relief does not extend the time for filing a petition in Tax Court for the spouse who is not in bankruptcy.

How to file your petition form

Send the completed petition form, a copy of this letter, and copies of all statements and/or schedules you received with this letter to the Tax Court at the address above. If more than one tax year is shown above, you may file one petition form showing all of the years you are challenging.

You may represent yourself before the Tax Court, or you may be represented by anyone admitted to practice before the Tax Court.

The limits on filing a petition

The time you have to file a petition in the Tax Court is set by law.

1. The petition is considered timely filed if the postmark date falls within the prescribed 90 or 150 day period and the envelope containing the petition is properly addressed with the correct postage.
2. The Tax Court cannot consider your case if your Tax Court petition is filed late. IRS cannot grant an extension or allow a suspension of the prescribed deadline, even for reasonable cause. Thus, contacting the Internal Revenue Service (IRS) for more information, or receiving other correspondence from the IRS won't change the allowable period for filing a petition with the Tax Court.

If you agree with the Notice of Deficiency

If you decide not to file a petition with the Tax Court, please sign the enclosed Form 4089-B, *Notice of Deficiency - Waiver*, and return it to us at the IRS address on the top of the first page of this letter. This will permit us to assess the deficiency quickly and can help limit the accumulation of interest.

If we don't hear from you

If you decide not to sign and return Form 4089-B, and you do not file a petition with the Tax Court within the time limit, the law requires us to assess and bill you for the deficiency after 90 days from the date of this letter (150 days if this letter is addressed to you outside the United States).

Note: If you are a C-corporation, Section 6621(c) of the Internal Revenue Code requires that we charge an interest rate two percent higher than the normal rate on corporate underpayments in excess of \$100,000.

Information about the IRS Taxpayer Advocate Office

The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers. You may be eligible for help from the Taxpayer Advocate Service (TAS) if you have tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or you believe an IRS procedure just isn't working as it should. TAS is your voice at the IRS. TAS helps taxpayers whose problems are causing financial difficulty or significant cost, including the cost of professional representation (this includes businesses as well as individuals). You can reach TAS by calling the TAS toll-free number at 1-877-777-4778 or by contacting the local Taxpayer Advocate office at:

15 New Sudbury Street, Boston, MA 02203

To learn more about TAS and your basic tax responsibilities, visit www.TaxpayerAdvocate.irs.gov.

How to contact us

You may write or call the contact person whose name, telephone number, and IRS address are shown in the heading of this letter if you need further assistance. If you write, please include your telephone number, the best times if we need to call you and a copy of this letter to help us identify your account.

If you prefer to call and the telephone number is outside your local calling area, there may be a long distance charge to you.

Keep the original letter for your records.

Sincerely,

John Koskinen

Commissioner

By

Susan Lamastro

Territory Manager--Technical Services

 **COPY**

Enclosures:

[Form 4549-A or Form 5278]

Form 4089-B

Form 4089-B (October 1999)	Department of the Treasury — Internal Revenue Service Notice of Deficiency-Waiver	Symbols LB&I
--------------------------------------	---	-----------------

Name and address of taxpayer(s)

Social Security or Employer Identification Number

Telexfree, LLC
c/o Stephen Darr, Bankruptcy Trustee
100 High Street, 23rd Floor
Boston, MA 02110



Kind of tax

☒ Copy to authorized representative

Income Tax

DEFICIENCY — Increase in Tax and Penalties

Tax Year Ended: 201312

Deficiency:
Increase in tax \$300,507,248

IRC section
6651(a)(1) \$75,126,857

See the attached explanation for the above deficiencies

I consent to the immediate assessment and collection of the deficiencies (increase in tax and penalties) shown above, plus any interest provided by law.

Your Signature _____ (Date signed)

Spouse's Signature
(If A Joint Return
Was Filed) _____ (Date signed)

Taxpayer's
Representative
Sign Here _____ (Date signed)

Corporate Name _____

Corporate Officers
Sign Here

_____	(Signature)	_____	(Title)	_____	(Date signed)
_____	(Signature)	_____	(Title)	_____	(Date signed)

If you agree, please sign one copy and return it; keep the other copy for your records.

Instructions for Form 4089 B

Note:

If you consent to the assessment of the amounts shown in this waiver, please sign and return it in order to limit the accumulation of interest and expedite our bill to you. Your consent will not prevent you from filing a claim for refund (after you have paid the tax) if you later believe you are entitled to a refund. It will not prevent us from later determining, if necessary, that you owe additional tax; nor will it extend the time provided by law for either action.

If you later file a claim and the Internal Revenue Service disallows it, you may file suit for refund in a district court or in the United States Claims Court, but you may not file a petition with the United States Tax Court.

Who Must Sign

If this waiver is for any year(s) for which you filed a joint return, both you and your spouse must sign the original and duplicate of this form. Sign your name exactly as it appears on the return. If you are acting under power of attorney for your spouse, you may sign as agent for him or her.

For an agent or attorney acting under a power of attorney, a power of attorney must be sent with this form if not previously filed.

For a person acting in a fiduciary capacity (executor, administrator, trustee), file Form 56, Notice Concerning Fiduciary Relationship, with this form if not previously filed.

For a corporation, enter the name of the corporation followed by the signature and title of the officer(s) authorized to sign.

Optional Paragraphs

A check in the block to the left of a paragraph below indicates that the paragraph applies to your situation.

- ☐ The amount shown as the deficiency may not be billed, since all or part of the refund due has been held to offset all or a portion of the amount of the deficiency. The amount that will be billed, if any, is shown on the attached examination report.
- ☐ The amount shown as a deficiency may not be billed, since the refund due will be reduced by the amount of the deficiency. The net refund due is shown on the attached examination report.

Form 5278 (Rev. June 2011)		Statement - Income Tax Changes		Schedule
1. Name(s) of taxpayer(s) Telexfree, LLC		2. <input checked="" type="checkbox"/> Notice of Deficiency <input type="checkbox"/> Other <input type="checkbox"/> Settlement Computation		
3. Taxpayer Identification Number [REDACTED]	4. Form number 1120	5. Docket number	6. Office symbols LB&I	
		Tax Year(s) Ended		
7. Adjustments to income		12/01/2013		
a. Bad Debt		186,344,898.00		
b. Commissions		622,588,034.00		
c. Advertising Credits		2,151,645,140.00		
d.				
e.				
f.				
g.				
h.				
8. Total adjustments		2,960,578,072.00		
9. Taxable income as shown in				
<input type="checkbox"/> Preliminary letter dated				
<input checked="" type="checkbox"/> Notice of deficiency dated		(2,101,985,935.00)		
<input type="checkbox"/> Return as filed				
10. Taxable income as revised		858,592,137.00		
11. Tax				
Tax Method				
Filing Status		300,507,248.00		
12. Alternative tax, if applicable				
13. Alternative minimum tax (Starting in tax year 2000)				
14. Corrected tax liability - (lesser of line 11 or 12 plus line 13)		300,507,248.00		
15. Less credits				
a.				
b.				
c.				
16. Balance - (line 14 less total of lines 15a - 15c)		300,507,248.00		
17. Plus other taxes				
a.				
b.				
c.				
18. Total corrected tax liability - (line 16 plus lines 17a - 17c)		300,507,248.00		
19. Total tax shown on return or as previously adjusted				
20. Adjustments: increase or (decrease) to:				
a.				
b.				
c.				
21. Deficiency - Increase in tax (overassessment - decrease in tax) (line 18 less line 19 adjusted by lines 20a - 20c)		300,507,248.00		
22. Adjustments to prepayment credits - increase (decrease)				
23. Balance due or (Overpayment) excluding interest and penalties (line 21 adjusted by line 22)		300,507,248.00		
24. Penalties and/or Additions to Tax (listed below)				
IRC section 6651(a)(1)		75,126,857		

In re: relexfree, LLC

Schedule A-1
Explanation of Adjustments

a. Deductions, Line 15 - Bad Debt

12/31/2013 \$ 186,344,898

It is determined that, since you did not prove that the amount of \$ 186,344,898 claimed on your return as a "bad debt" was: (1) a valid, enforceable debt ; and (2) incurred or paid in the tax year 2013, the amount is not deductible. Accordingly, your taxable income is increased by \$ 186,344,898.

b. Deductions, Line 26 - Commissions

12/31/2013 \$ 622,588,034.00

It is determined that the amount of \$ 622,588,034 claimed on your return as "commissions" for the tax year 2013 is not allowed because you have not established that you incurred, or if incurred, paid this amount during the year for ordinary and necessary business purposes and that any amount qualifies as a valid business expense or deduction under the provisions of the Internal Revenue Code ("IRC"). Accordingly, your taxable income is increased by \$ 622,588,034 for the tax year 2013.

c. Schedule C-1 - Advertising Credits

12/31/2013 \$ 2,151,645,140

It is determined that the amount of \$ 2,151,645,140 claimed on your return as "advertising expenses" for the tax year 2013 is not allowed because you have not established that you incurred, or if incurred, paid this amount during the taxable year for ordinary and necessary business purposes and that any amount qualifies as advertising or a valid business expense or deduction under the provisions of the Internal Revenue Code. Accordingly, your taxable income is increased by \$2,151,645,140 for the tax year 2013.

Schedule A-1
Explanation of Adjustments

d. Explanation of the Delinquency Penalty IRC § 6651(a)(1) \$ 75,126,857

Date return due (including extensions)	15-Sep-2014
Date return filed	13-Sep-2016
Months delinquent (not to exceed 5)	5
Total Corrected tax liability	300,507,428
Payments on or prior to original due date of return	0
Line 4 Less line 5	300,507,428
FTF penalty rate (5% times months delinquent from line 3)	25%
Penalty - Line 7 multiplied by line 6	75,126,857

Since you did not file your return within the time prescribed by law, and you did not show that not filing was due to reasonable cause, a penalty of 5 percent is added to the tax for each month or part of a month for which your return was late. The penalty will not exceed a total of 25 percent. In addition, interest is figured on this penalty from the due date of this return, (including any extension). See IRC § 6651(a)(1) and 6601(e)(2).

Form **1120X**
(Rev. January 2011)
Department of the Treasury
Internal Revenue Service

Amended U.S. Corporation Income Tax Return

OMB No. 1545-0132

For tax year ending
12/31/2013
(Enter month and year.)

Name	TELEXFREE, LLC		Employer identification number	
Number, street, and room or suite no. (If a P.O. box, see instructions.)	100 HIGH STREET #2301			
City or town, state, and ZIP code	BOSTON, MA	02110	Telephone number	
Enter name and address used on original return (If same as above, write "Same.")				
TELEXFREE LLC 125 SUMMER ST #1805 BOSTON MA				
Internal Revenue Service Center where original return was filed	CENTRALIZED INSOLVENCY OPERATION PO BOX 7346			

Exhibit
9

Fill in applicable items and use Part II on the back to explain any changes

Part I	Income and Deductions (see instructions)	(a) As originally reported or as previously adjusted	(b) Net change - increase or (decrease) - explain in Part II	(c) Correct amount
1	Total income	861,540,104.	306,414,049.	1,167,954,153.
2	Total deductions	2,963,526,039.	-1,792,428,035.	1,171,098,004.
3	Taxable income. Subtract line 2 from line 1	-2,101,985,935.	2,098,842,084.	-3,143,851.
4	Total tax			

Payments and Credits (see instructions)

5a	Overpayment in prior year allowed as a credit	5a		
b	Estimated tax payments	5b		
c	Refund applied for on Form 4466	5c		
d	Subtract line 5c from the sum of lines 5a and 5b	5d		
e	Tax deposited with Form 7004	5e		
f	Credit from Form 2439	5f		
g	Credit for federal tax on fuels and other refundable credits	5g		
6	Tax deposited or paid with (or after) the filing of the original return	6		15,792,982.
7	Add lines 5d through 6, column (c)	7		15,792,982.
8	Overpayment, if any, as shown on original return or as later adjusted	8		
9	Subtract line 8 from line 7	9		15,792,982.

Tax Due or Overpayment (see instructions)

10	Tax due. Subtract line 9 from line 4, column (c). If paying by check, make it payable to the "United States Treasury"	10		
11	Overpayment. Subtract line 4, column (c), from line 9	11		15,792,982.
12	Enter the amount of line 11 you want: Credited to 20 Estimated tax 15,792,982. Refunded	12		15,792,982.

Sign Here	Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
	Signature of officer	Date	Title	
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed PTIN
	JOSEPH MIDDLETON	Joseph Middleton	3/7/18	
	Firm's name	KPMG LLP	Firm's EIN	
	Firm's address	60 SOUTH STREET BOSTON, MA	02111	617-988-1000

For Paperwork Reduction Act Notice, see instructions.

Form 1120X (Rev. 1-2011)

Form 1120X (Rev. 1-2011)

Page **2**

Part II **Explanation of Changes to Items in Part I** (Enter the line number from page 1 for the items you are changing, and give the reason for each change. Show any computation in detail. Also, see **What To Attach** in the instructions.)

If the change is due to a net operating loss carryback, a capital loss carryback, or a general business credit carryback, see **Carryback Claims** in the instructions, and check here ☐

SEE ATTACHED STATEMENT

RECEIVED

PGC

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#206

INSOLVENCY

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Tax Period: December 31, 2013

2013 AMENDED RETURN STATEMENT

The taxpayer is amending its return for the following reasons: to include total activity for the TelexFree operations; report items of income and deductions based, to the extent possible, on the reconstructed transactional data included in the SIG system (TelexFree's information management system); to capture the activities of TelexFree, Inc., another entity in the Ponzi scheme, and correct the taxpayer's deduction for credits deposited in the Ponzi scheme users' accounts. Due to the relationship between the parties and the nature of the Ponzi scheme, it is impossible to separate the activity attributable to any individual entity within the system.

Based on SIG, the information management system utilized by the TelexFree entities, the amended return now reports all income the TelexFree entities received during 2013 for the sale of membership plans and phone packages. The original return reported gross income based only on the general ledger of TelexFree, LLC.

The amended return also includes operating expenses recorded in the general ledger of TelexFree, Inc. Furthermore, the aggregate deduction for credits deposited in the Ponzi scheme users' accounts (labeled as "Commissions" and "Advertising Credits Expense" on the prior amended return) has been adjusted so it is consistent with the best information available in the SIG system rather than the trailing twelve-month liability used to prepare the first amended return.

9 Form 1120X for 2013 Page 4 of 22
** AS AMENDED ** REQUEST FOR PROMPT REFUND **Form **1120**
Department of the Treasury
Internal Revenue Service

For calendar year 2013 or tax year beginning _____, ending _____

Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.

OMB No. 1545-0123

2013

A Check if:

- 1a Consolidated return (attach Form 951) ☐
- b Life/nonlife consolidated return ☐
- 2 Personal holding co. (attach Sch. PH) ☐
- 3 Personal service corp. (see instructions) ☐

TYPE
OR
PRINTName **TELEXPREE, LLC**

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Number, street, and room or suite no. If a P.O. box, see instructions.

100 HIGH STREET #2301

City or town, state, or province, country and ZIP code or foreign postal code

BOSTON, MA 02110

B Employer identification number

C Date incorporated

07/19/2012

D Total assets (see instructions)

\$ 95,379,106.

4 Schedule M-3

attached ☐

E Check if:

(1)

Initial return (2)

Final return (3)

X

Name change (4)

Address change

Income

1a Gross receipts or sales	1a	1,173,886,556.	1c	1,170,612,634.
b Returns and allowances	1b	3,273,922.	2	2,661,213.
c Balance. Subtract line 1b from line 1a			3	1,167,951,421.
2 Cost of goods sold (attach Form 1125-A)			4	
3 Gross profit. Subtract line 2 from line 1c			5	2,732.
4 Dividends (Schedule C, line 19)			6	
5 Interest			7	
6 Gross rents			8	
7 Gross royalties			9	
8 Capital gain net income (attach Schedule D (Form 1120))			10	
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			11	1,167,954,153.
10 Other income (see instructions - attach statement)				
11 Total income. Add lines 3 through 10				

Deductions (See instructions for limitations on deductions.)

12 Compensation of officers (see instructions - attach Form 1125-E)	12	
13 Salaries and wages (less employment credits)	13	119,285.
14 Repairs and maintenance	14	
15 Bad debts	15	186,344,898.
16 Rents	16	42,806.
17 Taxes and licenses	17	40,366.
18 Interest	18	15,362.
19 Charitable contributions	19	NONE
20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	20	243,373.
21 Depletion	21	
22 Advertising	22	25,547.
23 Pension, profit-sharing, etc., plans	23	
24 Employee benefit programs	24	
25 Domestic production activities deduction (attach Form 8903)	25	
26 Other deductions (attach statement)	26	984,266,367.
27 Total deductions. Add lines 12 through 26	27	1,171,098,004.
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	28	-3,143,851.
29a Net operating loss deduction (see instructions)	29a	
b Special deductions (Schedule C, line 20)	29b	
c Add lines 29a and 29b	29c	

Tax, Refundable Credits, and Payments

30 Taxable income. Subtract line 29c from line 28 (see instructions)	30	-3,143,851.
31 Total tax (Schedule J, Part I, line 11)	31	NONE
32 Total payments and refundable credits (Schedule J, Part II, line 21)	32	15,792,982.
33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>	33	
34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed	34	
35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	35	15,792,982.
36 Enter amount from line 35 you want: Credited to 2014 estimated tax <input checked="" type="checkbox"/> Refunded <input type="checkbox"/>	36	15,792,982.

Sign

Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer *Stephen Darr*

Date

3/7/15

Title

Trustee

May the IRS discuss this return with the preparer shown below (see instructions)? ☒ Yes ☐ No

Paid

Preparer

Use Only

Print/Type preparer's name

JOSEPH MIDDLETON

Preparer's signature

Joseph Middleton

Date

3/7/18

Check ☐ if self-employed

PTIN

Firm's EIN

Phone no.

617-988-1000

For Paperwork Reduction Act Notice, see separate instructions.

Form **1120** (2013)JSA
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USA-060024

TELEXFREE, LLC

Form 1120 (2013)

Page 2

Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		See instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	Total. Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471).			
15	Foreign dividend gross-up			
16	10-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4			
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b			

Form 1120 (2013)

TELEXPREE, LLC

Form 1120 (2013)

Page 3

Schedule J Tax Computation and Payment (see instructions)

Part I-Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))		2	
2	Income tax. Check if a qualified personal service corporation (see instructions)		3	NONE
3	Alternative minimum tax (attach Form 4626)		4	NONE
4	Add lines 2 and 3			
5a	Foreign tax credit (attach Form 1118)	5a		
b	Credit from Form 8834 (see instructions)	5b		
c	General business credit (attach Form 3800)	5c		
d	Credit for prior year minimum tax (attach Form 8827)	5d		
e	Bond credits from Form 8912	5e		
6	Total credits. Add lines 5a through 5e	6		
7	Subtract line 6 from line 4	7		NONE
8	Personal holding company tax (attach Schedule PH (Form 1120))	8		
9a	Recapture of investment credit (attach Form 4255)	9a		
b	Recapture of low-income housing credit (attach Form 8611)	9b		
c	Interest due under the look-back method - completed long-term contracts (attach Form 8697)	9c		
d	Interest due under the look-back method - income forecast method (attach Form 8666)	9d		
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e		
f	Other (see instructions - attach statement)	9f		
10	Total. Add lines 9a through 9f	10		
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31	11		NONE

Part II-Payments and Refundable Credits

12	2012 overpayment credited to 2013	12	
13	2013 estimated tax payments	13	
14	2013 refund applied for on Form 4466	14	()
15	Combine lines 12, 13, and 14	15	
16	Tax deposited with Form 7004	16	15,792,982.
17	Withholding (see instructions)	17	
18	Total payments. Add lines 15, 16, and 17	18	15,792,982.
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4136	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement - see instructions)	19d	
20	Total credits. Add lines 19a through 19d	20	
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32	21	15,792,982.

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. <u>454390</u>		
b	Business activity <u>DIRECT SALES</u>		
c	Product or service <u>COMMUNICATIONS</u>		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation _____		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G).		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G).		X

Form 1120 (2013)

TELEXPREE, LLC

Form 1120 (2013)

Schedule K Other Information *continued (see instructions)*

Page 4

5 At the end of the tax year, did the corporation:

a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock
TELEXPREE FINANCIAL, INC		US	100.00

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.

If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.

7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock? For rules of attribution, see section 318. If "Yes," enter:

(i) Percentage owned 30.00 and (ii) Owner's country BR

(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached 1

8 Check this box if the corporation issued publicly offered debt instruments with original issue discount. If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

9 Enter the amount of tax-exempt interest received or accrued during the tax year \$

10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) 2

11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here. If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) \$

13 Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year and its total assets at the end of the tax year less than \$250,000?

If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year \$

14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)? If "Yes," complete and attach Schedule UTP.

15a Did the corporation make any payments in 2013 that would require it to file Form(s) 1099?

b If "Yes," did or will the corporation file required Forms 1099?

16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?

17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction?

18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million?

Form 1120 (2013)

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TELEXFREE, LLC

Form 1120 (2013)

Page 5

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash		1,707,287.		37,640,973.
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts				
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)	STMT 4	13,509,841.		29,951,194.
7	Loans to shareholders		12,124.		91,257.
8	Mortgage and real estate loans				
9	Other investments (attach statement)		NONE		27,368,369.
10a	Buildings and other depreciable assets	15,121.		258,495.	
b	Less accumulated depreciation	(599.)	14,522.	(38,550.)	219,945.
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach statement)	STMT 4	3,475.		107,368.
15	Total assets		15,247,249.		95,379,106.
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement)	STMT 4	7,265,686.		54,512,623.
19	Loans from shareholders		50.		50.
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (attach statement)	STMT 4	NONE		61,335,098.
22	Capital stock: a Preferred stock				
b	Common stock				
23	Additional paid-in capital				
24	Retained earnings - Appropriated (attach statement)				
25	Retained earnings - Unappropriated		7,981,513.		-20,468,665.
26	Adjustments to shareholders' equity (attach statement)				
27	Less cost of treasury stock		()		()
28	Total liabilities and shareholders' equity		15,247,249.		95,379,106.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more - see instructions

1	Net income (loss) per books	-22,177,778.	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books	16,025,349.		Tax-exempt interest \$	
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
5	Expenses recorded on books this year not deducted on this return (itemize):		a	Depreciation	205,423.
a	Depreciation		b	Charitable contributions	
b	Charitable contributions	7,500.			
c	Travel and entertainment	1,607.			
	SEE STATEMENT 5	3,204,894.	9	Add lines 7 and 8	205,423.
6	Add lines 1 through 5	-2,938,428.	10	Income (page 1, line 28) - line 6 less line 9	-3,143,851.

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	7,981,513.	5	Distributions: a Cash	6,272,400.
2	Net income (loss) per books	-22,177,778.		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize):	
4	Add lines 1, 2, and 3	-14,196,265.	7	Add lines 5 and 6	6,272,400.
			8	Balance at end of year (line 4 less line 7)	-20,468,665.

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Form 1120 (2013)

8431ME 1592

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USA-000028

**SCHEDULE G
(Form 1120)**

(Rev. December 2011)
Department of the Treasury
Internal Revenue Service
Name

**Information on Certain Persons Owning the
Corporation's Voting Stock**

▶ Attach to Form 1120.
▶ See instructions on page 2.

OMB No. 1545-0123

TELEXFREE, LLC
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Employer identification number (EIN)

Part I Certain Entities Owning the Corporation's Voting Stock. (Form 1120, Schedule K, Question 4a). Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock

Part II Certain Individuals and Estates Owning the Corporation's Voting Stock. (Form 1120, Schedule K, Question 4b). Complete columns (i) through (iv) below for any individual or estate that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock
CARLOS WANZELER		US	50.00
JAMES MERRILL		US	50.00

For Paperwork Reduction Act Notice,
see the instructions for Form 1120.

3C2720 1.000 JSA

Schedule G (Form 1120) (Rev. 12-2011)

8431ME 1592

6

Form	4626	Alternative Minimum Tax - Corporations	OMB No. 1545-0175
Department of the Treasury Internal Revenue Service		► Attach to the corporation's tax return. ► Information about Form 4626 and its separate instructions is at www.irs.gov/form4626 .	2013
Name TELEXPREE, LLC C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		Employer identification number <div style="background-color: black; width: 150px; height: 20px;"></div>	
Note: See the instructions to find out if the corporation is a small corporation exempt from the alternative minimum tax (AMT) under section 55(e).			
1	Taxable income or (loss) before net operating loss deduction	1	-3,143,851.
2	Adjustments and preferences:		
a	Depreciation of post-1986 property	2a	
b	Amortization of certified pollution control facilities	2b	
c	Amortization of mining exploration and development costs	2c	
d	Amortization of circulation expenditures (personal holding companies only)	2d	
e	Adjusted gain or loss	2e	
f	Long-term contracts	2f	
g	Merchant marine capital construction funds	2g	
h	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h	
i	Tax shelter farm activities (personal service corporations only)	2i	
j	Passive activities (closely held corporations and personal service corporations only)	2j	
k	Loss limitations	2k	
l	Depletion	2l	
m	Tax-exempt interest income from specified private activity bonds	2m	
n	Intangible drilling costs	2n	
o	Other adjustments and preferences SEE STATEMENT 6	2o	NONE
3	Pre-adjustment alternative minimum taxable income (AMTI). Combine lines 1 through 2o	3	-3,143,851.
4	Adjusted current earnings (ACE) adjustment:		
a	ACE from line 10 of the ACE worksheet in the instructions	4a	-3,143,851.
b	Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference as a negative amount (see instructions)	4b	
c	Multiply line 4b by 75% (.75). Enter the result as a positive amount	4c	
d	Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see instructions). Note: You must enter an amount on line 4d (even if line 4b is positive)	4d	
e	ACE adjustment. <div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> • If line 4b is zero or more, enter the amount from line 4c • If line 4b is less than zero, enter the smaller of line 4c or line 4d as a negative amount </div> <div style="font-size: 2em;">}</div> </div>	4e	
5	Combine lines 3 and 4e. If zero or less, stop here; the corporation does not owe any AMT	5	-3,143,851.
6	Alternative tax net operating loss deduction (see instructions)	6	
7	Alternative minimum taxable income. Subtract line 6 from line 5. If the corporation held a residual interest in a REMIC, see instructions	7	-3,143,851.
8	Exemption phase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):		
a	Subtract \$150,000 from line 7 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-	8a	NONE
b	Multiply line 8a by 25% (.25)	8b	NONE
c	Exemption. Subtract line 8b from \$40,000 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-	8c	40,000.
9	Subtract line 8c from line 7. If zero or less, enter -0-	9	NONE
10	Multiply line 9 by 20% (.20)	10	NONE
11	Alternative minimum tax foreign tax credit (AMTFTC) (see instructions)	11	
12	Tentative minimum tax. Subtract line 11 from line 10	12	NONE
13	Regular tax liability before applying all credits except the foreign tax credit	13	
14	Alternative minimum tax. Subtract line 13 from line 12. If zero or less, enter -0-. Enter here and on Form 1120, Schedule J, line 3, or the appropriate line of the corporation's income tax return	14	NONE

For Paperwork Reduction Act Notice, see separate instructions.

Form 4626 (2013)

JGA

3X2400 2.000

8431ME 1592

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TELEXPREE, LLC

Adjusted Current Earnings (ACE) Worksheet

Keep for Your Records

See ACE Worksheet Instructions.

1	Pre-adjustment AMTI. Enter the amount from line 3 of Form 4626	1	-3,143,851.
2	ACE depreciation adjustment:		
a	AMT depreciation	2a	NONE
b	ACE depreciation:		
(1)	Post-1993 property	2b(1)	NONE
(2)	Post-1989, pre-1994 property	2b(2)	
(3)	Pre-1990 MACRS property	2b(3)	
(4)	Pre-1990 original ACRS property	2b(4)	
(5)	Property described in sections 168(f)(1) through (4)	2b(5)	
(6)	Other property	2b(6)	
(7)	Total ACE depreciation. Add lines 2b(1) through 2b(6)	2b(7)	NONE
c	ACE depreciation adjustment. Subtract line 2b(7) from line 2a	2c	NONE
3	Inclusion in ACE of items included in earnings and profits (E&P):		
a	Tax-exempt interest income	3a	
b	Death benefits from life insurance contracts	3b	
c	All other distributions from life insurance contracts (including surrenders)	3c	
d	Inside buildup of undistributed income in life insurance contracts	3d	
e	Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial list)	3e	
f	Total increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e	3f	
4	Disallowance of items not deductible from E&P:		
a	Certain dividends received	4a	
b	Dividends paid on certain preferred stock of public utilities that are deductible under section 247	4b	
c	Dividends paid to an ESOP that are deductible under section 404(k)	4c	
d	Nonpatronage dividends that are paid and deductible under section 1382(c)	4d	
e	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)	4e	
f	Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e	4f	
5	Other adjustments based on rules for figuring E&P:		
a	Intangible drilling costs	5a	
b	Circulation expenditures	5b	
c	Organizational expenditures	5c	
d	LIFO inventory adjustments	5d	
e	Installment sales	5e	
f	Total other E&P adjustments. Combine lines 5a through 5e	5f	
6	Disallowance of loss on exchange of debt pools	6	
7	Acquisition expenses of life insurance companies for qualified foreign contracts	7	
8	Depletion	8	
9	Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property	9	
10	Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 4a of Form 4626	10	-3,143,851.

JSA

3X2410 2.000

8431ME 1592

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USA-000031

Form **1125-A**

(Rev. December 2012)

Department of the Treasury
Internal Revenue Service

Cost of Goods Sold

► Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.
► Information about Form 1125-A and its instructions is at www.irs.gov/form1125a.

OMB No. 1545-2225

Name TELEXFREE, LLC		Employer identification number
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		
1	Inventory at beginning of year	1
2	Purchases	2
3	Cost of labor	3
4	Additional section 263A costs (attach schedule)	4
5	Other costs (attach schedule) SEE STATEMENT 7	5
6	Total. Add lines 1 through 5	6
7	Inventory at end of year	7
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8
9a Check all methods used for valuing closing inventory:		
(i) <input type="checkbox"/> Cost		
(ii) <input type="checkbox"/> Lower of cost or market		
(iii) <input type="checkbox"/> Other (Specify method used and attach explanation.)		
b Check if there was a writedown of subnormal goods		<input type="checkbox"/>
c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970)		<input type="checkbox"/>
d If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO		8d
e If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)?		<input type="checkbox"/> Yes <input type="checkbox"/> No
f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation		<input type="checkbox"/> Yes <input type="checkbox"/> No

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (defined below), you can adopt or change your accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method).

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, you can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See the instructions for lines 2 and 7.

For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on adopting or changing to this method of accounting, see Form 3115, Application for Change in Accounting Method, and its instructions.

Qualifying taxpayer. A qualifying taxpayer is a taxpayer that, (a) for each prior tax year ending after December 16, 1996, has average annual gross receipts of \$1 million or less for the 3 prior tax years and (b) its business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2001-10, 2001-2 I.R.B. 272.

Qualifying small business taxpayer. A qualifying small business taxpayer is a taxpayer that, (a) for each prior tax year

ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years, (b) whose principal business activity is not an ineligible activity, and (c) whose business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2002-28, 2002-18, I.R.B. 815.

Uniform capitalization rules. The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

For Paperwork Reduction Act Notice, see instructions.

Form **1125-A** (12-2012)

JSA
5X4012 1.000

8431ME 1592

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USA-000032

Form **4562****Depreciation and Amortization**
(Including Information on Listed Property)

OMB No. 1545-0172

2013Attachment
Sequence No. **179**Department of the Treasury
Internal Revenue Service (99)

▶ See separate instructions.

▶ Attach to your tax return.

Name(s) shown on return

TELEXFREE, LLC

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Identifying number

Business or activity to which this form relates

GENERAL DEPRECIATION AND AMORTIZATION**Part I Election To Expense Certain Property Under Section 179****Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	500,000.
2	Total cost of section 179 property placed in service (see instructions)	2	243,373.
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000.
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	500,000.
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	243,373.
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	243,373.
10	Carryover of disallowed deduction from line 13 of your 2012 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	500,000.
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	243,373.
13	Carryover of disallowed deduction to 2014. Add lines 9 and 10, less line 12	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)**

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2013	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here		

Section B - Assets Placed in Service During 2013 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only - see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			39 yrs.	MM	S/L	
				MM	S/L	

Section C - Assets Placed in Service During 2013 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations - see instructions	22	243,373.
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

USA For Paperwork Reduction Act Notice, see separate instructions.
3X2300 2.000Form **4562** (2013)

8431ME 1592

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TELEFREE, LLC
Form 4562 (2013)

Part V Listed Property (include automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.)

Note: For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete only 24a, 24b, columns (e) through (i) of Section A, all of Section B, and Section C if applicable.

Section A - Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed?					Yes	No	24b If "Yes," is the evidence written?					Yes	No
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/Convention	(h) Depreciation deduction	(i) Elected section 179 cost					
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)									25				
26 Property used more than 50% in a qualified business use:													
		%											
		%											
		%											
27 Property used 50% or less in a qualified business use:													
		%				S/L -							
		%				S/L -							
		%				S/L -							
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1.									28				
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1.									29				

Section B - Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
30 Total business/investment miles driven during the year (do not include commuting miles)												
31 Total commuting miles driven during the year												
32 Total other personal (noncommuting) miles driven												
33 Total miles driven during the year. Add lines 30 through 32												
34 Was the vehicle available for personal use during off-duty hours?	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
35 Was the vehicle used primarily by a more than 5% owner or related person?												
36 Is another vehicle available for personal use?												

Section C - Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who are not more than 5% owners or related persons (see instructions).

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	Yes	No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions.)		

Note: If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles.

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2013 tax year (see instructions):					
43 Amortization of costs that began before your 2013 tax year					43
44 Total. Add amounts in column (f). See the instructions for where to report.					44

JSA

Form 4562 (2013)

3X2310 2.000

8431ME 1592

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USA-000034

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE	23,404.
PAYROLL TAX EXPENSE	15,664.
TAXES AND LICENSES	1,298.

TOTAL	40,366.
	=====

STATEMENT 1

8431ME 1592

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USA-000035

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 19 - CONTRIBUTIONS DEDUCTION

1. TAXABLE INCOME (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-3,143,851.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. TAXABLE INCOME WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-3,143,851.
5. CONTRIBUTION DEDUCTION LIMITATION (TAXABLE INCOME X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

LINE 19 - 5 YEAR CONTRIBUTION CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CONVERTED TO NOL CARRYOVER	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE		7,500.
TOTAL	7,500.	NONE		7,500.

STATEMENT 2

8431ME 1592

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

=====

LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT	194,012.
BANK CHARGES	299,799.
CREDIT CARD FEES	284.
EVENTS	114,038.
FILING AND REGISTERED AGENT FEES	1,579.
MANAGEMENT AND MARKETING	4,357,420.
MERCHANT FEES	5,064,925.
MISCELLANEOUS	33,500.
OFFICE EXPENSES	17,372.
OFFICE SUPPLIES	2,509.
OTHER EXPENSES	4,168.
PAYROLL SERVICE FEE	997.
PERSONELL	18,750.
POSTAGE AND DELIVERY	1,599.
PRODUCT DEVELOPMENT	6,000.
PROFESSIONAL CONSULTANT IT	33,750.
PROFESSIONAL FEES	455,791.
PROMOTIONAL	118,594.
SMALL ITEMS NOT CAPITALIZED	3,417.
SOFTWARE DEVELOPMENT	81,288.
SUBCONTRACTOR	59,443.
PROFESSIONAL IT CONSULTANT	440,682.
GROSS CREDIT LIABILITY ACCRUAL	972,955,648.
WEBSITE DOMAIN	780.
TRAVEL MEALS	22.
TOTAL	984,266,367.

=====

STATEMENT 3

8431ME 1592

14

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Tax Period: December 31, 2013

2013 Statement Regarding Gross Credit Liability Accrual

The credits deposited in Ponzi scheme users' accounts during 2013 (i.e., \$972,955,648) were used by participants to satisfy invoices and redeemed for cash as shown below:

\$0	Credits outstanding BOY
\$972,955,648	2013 Credits issued to users (deduction claimed on line 26)
(\$843,475,755)	Credits redeemed by users to satisfy invoices (included in gross receipts in line 1a)
(\$68,144,795)	Credits redeemed by users for cash
<hr/> \$61,335,098	Credits outstanding EOY

STATEMENT 3A

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 -

OTHER CURRENT ASSETS

	BEGINNING	ENDING
PROPERTY ON HOLD	938,871.	16,222,365.
LOAN FROM TELEXFREE INC	701,525.	NONE
LOAN TO YMPACTUS	11,869,445.	NONE
LOAN TO TELEXELECTRIC LLP	NONE	2,022,329.
LOAN TO TELEXFREE FINANCIAL	NONE	4,105,475.
LOAN TO TELEXMOBILE	NONE	500,870.
PREPAID EXPENSES	NONE	1,709,402.
LOAN TO TELEXFREE LLC	NONE	5,390,753.
TOTAL	13,509,841.	29,951,194.

SCH L, LINE 14 - OTHER ASSETS

ORGANIZATIONAL COSTS	3,475.	3,475.
SOFTWARE	NONE	97,949.
SECURITY DEPOSITS	NONE	5,944.
TOTAL	3,475.	107,368.

SCH L, LINE 18 -

OTHER CURRENT LIABILITIES

ACCRUED FEDERAL INCOME TAX	4,624,801.	19,964,029.
ACCRUED STATE TAX	843,429.	3,812,940.
BRAZILLIAN HELP INC	2,672.	2,672.
LOAN TO/FROM TELEXFREE LLC	701,525.	5,390,753.
OTHER CURRENT LIABILITIES	1,093,259.	17,676,275.
TELECOM TAXES PAYABLE	NONE	23,404.
COMMISSIONS PAYABLE	NONE	7,642,550.
TOTAL	7,265,686.	54,512,623.

SCH L, LINE 21 - OTHER LIABILITIES

ACCRUED ADVERTISING CREDITS

TOTAL	NONE	61,335,098.
	NONE	61,335,098.

STATEMENT 4

8431ME 1592

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TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH M-1, LINE 5 - EXPENSES RECORDED ON BOOKS NOT DEDUCTED ON RETURN

STATE TAXES	2,969,511.
LOSS ON INVESTMENT	48,663.
PENALTIES	186,720.
TOTAL	3,204,894.

8431ME 1592

STATEMENT 5

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USA-000040

TELEXFREE, LLC

FORM 4626 DETAIL

LINE 20 - OTHER ADJUSTMENTS - CONTRIBUTIONS DEDUCTION

1. AMTI (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-3,143,851.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. AMTI WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-3,143,851.
5. CONTRIBUTION DEDUCTION LIMITATION (AMTI X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

5 YEAR CONTRIBUTIONS CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL	7,500.	NONE	7,500.

LINE 20 - CONTRIBUTIONS ADJUSTMENT

REGULAR CONTRIBUTIONS	NONE
AMT CONTRIBUTIONS	NONE
CONTRIBUTION ADJUSTMENT	NONE

TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

DIRECT INBOUND DIAL & ACCESS NUMBERS
TELECOM & DATABASE NETWORK EXPENSE
TERMINATION

45,930.
513,198.
2,102,085.

TOTAL

2,661,213.

8431ME 1592

STATEMENT 7

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USA-000042

Form 5701 (Rev. Aug. 1980)	Department of the Treasury - Internal Revenue Service NOTICE of PROPOSED ADJUSTMENT		
Name of taxpayer Telexfree, LLC			Issue No. 001
Name and title of person to whom delivered Stephen Darr, Bankruptcy Trustee			Date: 11/07/2017
Entity for this proposed adjustment Telexfree, LLC			

Based on the information we now have available and our discussions with you, we believe that the proposed adjustments listed below should be included in the revenue agent's report. However, if you have additional information that would alter or reverse this proposal, please furnish this information as soon as possible.

Years	Amount	Account or Return Line	Sain No.	Issue Code
201412	2,442,705,606	Advertising Credit Expense	523	

ISSUE
SEE ATTACHED FORM 886-A

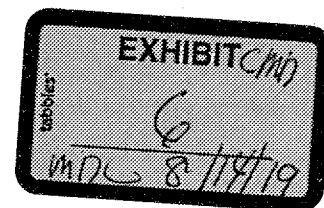
Exhibit
10

REASONS FOR PROPOSED ADJUSTMENT

If the explanation of the adjustment will be longer than the space provided below, the entire explanation should begin on Form 886-A (Explanation of Items)

See attached Form 886-A.

Response due by: November 15, 2017



Taxpayer Representative's action

Name: _____ Title: _____ Date: _____
() Agreed () Agreed in Part () Disagreed () Will submit more information by: _____

Revenue Agent

Christine DeRosa, 1033183

Date

11/07/2017

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

	<u>201412</u>
Other Deductions – Per line 26 of Return	2,450,046,128
Other Deductions – Corrected	<u>7,340,522</u>
Adjustment	\$ 2,442,705,606

Issue:

Whether the claimed advertising credits were deductible expenses on the taxpayer's 2013 tax return in the amount of \$2,442,705,606?

Facts:

The taxpayer and related entities operated a Ponzi/pyramid scheme from April 2012 to April 2014, when they filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. While the taxpayer purported to be in the business of selling Voice Over Internet Protocol (VoIP) phone packages before their bankruptcy filing, the primary purpose of their operation was to reward people who paid a flat fee to participate (participants) in the taxpayer's purported VoIP sales program for the recruitment of additional participants. The recruitment of additional participants furthered the illegal Ponzi/pyramid scheme rather than the legitimate VoIP business. The taxpayer also promised to compensate participants for purported advertising and product sales which, likewise, furthered the illegal Ponzi/pyramid scheme rather than the legitimate VoIP business.

The taxpayer's return was prepared using the partially recovered books and records provided to the Chapter 11 Bankruptcy Trustee, Mr. Darr, by Homeland Security Investigation. This investigative arm of the Homeland Security provided the Trustee with copies of electronic information contained from the taxpayer's computers and servers. The Trustee used this information to recreate the Taxpayer's information management system which tracked the account activity of the Ponzi/pyramid scheme participants. The Trustee states that he cannot certify that the information obtained and used are both accurate and complete.

The Trustee filed a motion with the court outlining the details the Trustee and his associates used to search, organize, and test the data used to prepare these returns. KPMG, however, has not independently verified such information or estimates it may contain.

The books and records show that the taxpayer operated at a loss each year because the Ponzi/pyramid scheme provided participants with significant and unsustainable returns on investment. The income reported on the taxpayer's return represents amounts the taxpayer received from participants for membership plans or VoIP sales/phone packages (in the form of cash or redemption of credits in satisfaction of invoices). The deductions claimed by the taxpayer are for amounts they allege were promised to participants for purported advertising services, product and membership plan sales, as well as other general operating expenses.

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

The amounts promised to participants for advertising services are not for legitimate advertising but, rather, unsustainable promised income/profit that furthers the Ponzi/pyramid scheme. This is no different than any other unrealistic and unsustainable return promised to victims of a Ponzi/pyramid scheme.

The Trustee prepared the return using the best available information, however, the information may be incomplete and the return amounts may be inaccurate because he was unable to verify the completeness and accuracy of the source documents. The Trustee and his advisors have no personal knowledge regarding the historical operation of the taxpayer nor do they have access to former employees or many of the taxpayer's records.

Finally, it should be noted that the taxpayer originally deducted the \$2 Billion of Advertising Credits Expense on its 2013 tax return. However, when the taxpayer filed its 2014 tax return it removed the \$2 billion of Advertising Credit Expense from the 2013 tax return and placed it on the 2014 tax return.

Rather than amending the 2013 tax return, the taxpayer added a NOL white paper statement to its 2014 return. The taxpayer wrote on its 2014 statement "Adjustments to NOL represents a reallocation of Advertising Credits and Commission as paid in the appropriate years to correct erroneously allocated credits."

Law and Argument:

First, it should be noted there is a fundamental difference between how the taxpayer characterizes the "Credits Expense" and how the Government characterizes them. The bulk of the taxpayer's arguments, and the tax return for 2014, classify these credits as advertising expenses. As discussed below, the accrued credits payable to participants are not deductible as bona fide advertising expenses. In addition, the accrued credits are not deductible as compensation or as dividends.¹

In the Securities and Exchange Commission (SEC) compliant², the payments were described as compensation. The taxpayer promised to pay participants/recruiters/promoters simply for recruiting members³ or placing ads. For example, in the taxpayer's marketing presentation, the taxpayer states "Just place your ads every day and everyone gets paid weekly."⁴

* * * *

¹ Notes in Exhibit E: Notes 1. Trailing liability calculated as of the last day of each month based on the weekly Advertising Bonus as described in TelexFree Participant contracts. 2. Includes purchases of AdCentral and AdCentral Family plans and excludes commission other than weekly Advertising Bonus. 3. Assumes Participants purchasing AdCentral or AdCentral Family plans would place required advertisements and receive Advertising Bonus each week. Source: Debtors' Participant database.

² United States District Court, District of Massachusetts, Case 1:14-cv-11858-DJC, Document 2, Filed 4/15/14.

³ Id at p.13

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

The fact that participants/recruiters or promoters anticipated getting paid weekly could indicate that the credits should be treated as compensation to the participants for recruiting other participants. However, as discussed below, in order to be deductible as compensation, the taxpayer must prove compensatory intent in making the payment and that the amount of the payment was reasonable for the amount of services provided.

Alternatively, the SEC filed suit against the taxpayer because the memberships the taxpayer sold to new participants that gave participants the right to recruit new participants and to receive payments from the taxpayer for placing ads was in substance a taxpayer offering of unregistered securities⁵ in the Ponzi Scheme. Securities, generally, pay dividends to holders. Dividends would not be deductible to the taxpayer for federal tax purposes.

Finally, several other alternative arguments are discussed below.

1. Ordinary and Necessary Business Expenses

Internal Revenue Code (IRC) § 162(a) provides for the deduction of all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business. In general terms, "ordinary" has been interpreted by the courts to mean that the expense must be normal, usual or customary; it could also have a reasonably immediate or close relationship to the operation of the taxpayer's business. While, "necessary" has been interpreted to mean that the expense must be required or at a minimum, appropriate or helpful to the trade or business. In order for a trade or business expense to be deductible under IRC § 162 it must be both ordinary and necessary.

The taxpayer claims that the accrued credits payable to participants for posting ads for the taxpayer's VoIP service online constitute ordinary, necessary business expenses under section 162. Taxpayers generally may deduct under section 162 advertising expenses that are directly related to a taxpayer's trade or business. Treas. Reg. Section 1.162-2(a); Rev. Rul. 92-80. In order to qualify for a deduction, the expenses must be incurred for bona fide advertising. In addition, the amount paid for advertising must be reasonable in relation to the amount of advertising provided.

However, the taxpayer operated an illegal Ponzi/pyramid Scheme which purported to be a legitimate VoIP business. The taxpayer knew that the ads participants placed on websites created by the taxpayer that were already saturated with other ads for the taxpayer's VoIP product had no reasonable possibility of inducing people to purchase the taxpayer's VoIP service and that the

continued footnote

⁴ Id at p.15. See also: p.15 quoting an internet video "What if you were with a company that would pay you just to advertise the service? They are paying us to advertise the service. It's just that simple."

⁵ Id at 2.

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
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VoIP service generated only a de minimis amount of revenue for the taxpayer. Therefore, the taxpayer knew at the time it promised to pay participants for placing ads, that the ads did not constitute bona fide advertising and were merely sham metrics used to disburse funds obtained from the buy-in payments made by new participants to recruiting participants. These payments and the promise of payments had no legitimate business purpose and only furthered the Ponzi/pyramid scheme. Had the taxpayer operated a bona fide business rather than a Ponzi/pyramid scheme, paying participants to place ads that had little likelihood of being viewed and no possibility of generating revenue sufficient to pay expenses and generate profit would not be of any value to the business.

Accordingly, the credits accrued for purported advertising expenses payable to participants are not deductible as ordinary and necessary advertising expenses under section 162. Thus, the expenses are neither "ordinary" nor "necessary" and are disallowed under IRC § 162 in the amount of \$2,442,705,606 for tax year 2014.

2. Compensation

In general, a taxpayer may deduct reasonable compensation paid for personal services actually rendered in connection with carrying on a trade or business. Payments in the form of compensation that are not in fact for services rendered are not deductible. Whether payments are compensation for services rendered or are instead dividends, loans, loan repayments, interest or part of some other transaction is a question of fact. For a compensation payment to be deductible, there must be proof of a contract to render services, actual performance, and a reasonable probability that payment was intended when the contract was made.

As discussed above, the taxpayer operated a Ponzi scheme and knew at the time it agreed to pay participants for placing ads for the VoIP product that sales of the VoIP product were minimal; the ads placed by participants had no reasonable possibility of inducing people to purchase the taxpayer's VoIP service; and that participants ultimately would be paid from buy-in payments made by new participants rather than revenues generated by VoIP plan sales. Therefore, the taxpayer did not intend to compensate the participants for actual sales or recruiting services because the taxpayer knew that the purported advertising, as well as the taxpayer's business model, was a sham. In addition, even if the taxpayer actually intended to compensate the participants for bona fide services, the amount of compensation the taxpayer promised to participants for merely cutting and pasting a few pre-drafted ads onto a website once per week would not be considered reasonable for the minimal amount of time and effort a participant would expend to place an ad each week.

Accordingly, the taxpayer is not entitled to a deduction for the accrued credits payable to participants because it lacked the requisite compensatory intent and the amount it agreed to pay the participants was not reasonable in relation to the purported services provided by the participants.

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Even if the taxpayer could demonstrate that the compensatory intent and reasonableness requirements with respect to the accrued credits to participants are satisfied, the all events test is not satisfied with respect to the credits.

Under IRC §461, compensation paid after 3.5 months of year end (3/15/2015 for tax year 2014) should not have been deducted on the respective returns.

Under IRC § 461(a), deductions for expenses under the accrual method are allowable in the year the "all-events test" is satisfied. In applying this test to determine the timing of an expense's deductibility, deductions are allowable in the year all events necessary to establish the liability or deduction have occurred, and the amount is determinable with reasonable accuracy, as noted by IRC § 461(h)(4), and reiterated in Treas. Reg. § 1.461-1(a)(2).

In addition, IRC § 461(h)(1) requires that economic performance must have occurred. The determination as to when economic performance occurs depends upon the type of liability incurred. A deduction for salary under an employment contract or a bonus under a year-end bonus declaration is presumed to be paid under a plan, or method or arrangement, deferring the receipt of compensation, to the extent that the salary or bonus is received beyond the applicable 2 ½ month period. As such, a deduction for payments to unrelated taxpayers is allowed only if paid within 2 ½ months of year-end, as per Temp. Reg. § 1.404(b)-1T, Q&A 2. Any payments made after 2 ½ months after year-end are deductible by the corporation for its year in which such payments are includable in income by the recipient.

Therefore, the 2014 deduction in the amount of \$2,442,705,606 will be disallowed in full.

Alternatively, if the advertising credits are not deemed compensation, they are still not deductible under IRC §461 "all events" test because the amounts are not paid nor are likely to be paid.

In re Southwestern States Mktg. Corp. v. United States, 179 B.R. 813, 817 (N.D. Tex. 1994) (finding all-events test was not satisfied where settlement payment was agreed to while a taxpayer was in bankruptcy and the bankruptcy court found "no likelihood of repayment."); *Brainerd v. Commissioner*, 7 T.C. 1180, 1184 (1946) (disallowance holding supported by finding of "no likelihood" that the liability would ever be paid.)

Finally, the taxpayer does not meet the recurring item exception under IRC § 461(h)(3) because the payments were not made within 8.5 months after year end. Nor, as noted above, were they paid within 3.5 months as required under Treas. Reg. § 1.461-4(d)(6)(ii).

3. Dividends

First, Treas. Reg. § 1.162-7(b)(1) states any amount paid in the form of compensation, but not in fact as the purchase price of services, is not deductible. In this case, the SEC charged the taxpayer

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

with, among other things, dealing in unregistered securities with respect to the memberships it sold to participants. Therefore, the participants would be deemed to hold securities in the taxpayer, and the payments the taxpayer made to participants could be treated as dividends payments.

IRC § 316(a) states the term "dividend" means any distribution of property made by a corporation to its shareholders— (1) out of its earnings and profits accumulated after February 28, 1913, or (2) out of its earnings and profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year), without regard to the amount of the earnings and profits at the time the distribution was made.

Except as otherwise provided in this subtitle, every distribution is made out of earnings and profits to the extent thereof, and from the most recently accumulated earnings and profits. To the extent that any distribution is, under any provision of this subchapter, treated as a distribution of property to which section 301 applies, such distribution shall be treated as a distribution of property for purposes of this subsection.

Thus, by definition, dividends are a reduction of equity and not an ordinary and necessary business expense under IRC § 162.

4. Estimates

The Trustee relied on estimates to prepare the taxpayer's return. Estimated amounts are not deductible.

The Trustee provided the attached explanation to the Originally Filed Form 1120:

The taxpayer and related entities (collectively, the "Debtors") operated a Ponzi/pyramid scheme from April 2012 to April 2014 when they filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. While the Debtors purported to be in the business of selling phone packages before their bankruptcy filings, the primary purpose of their operation was to reward participants for the recruitment of additional participants. The Debtors also compensated participants for advertising and product sales.

The taxpayer's return was prepared using the books and records provided by the Chapter 11 Trustee appointed by the Bankruptcy Court to oversee the Debtors' Chapter 11 cases. Homeland Security Investigation, the investigative arm of the Department of Homeland Security, provided the Trustee with copies of electronic information contained in the Debtors' computers and servers. The Trustee used this data to recreate the information management system used by the Debtors, which tracked account activity of the Ponzi/pyramid scheme's participants. A motion the Trustee filed with the bankruptcy court, attached, outlines in detail the process the trustee and his associates followed to search, organize, and

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

*test the data recovered. KPMG has not independently verified such information and it may contain estimates.*⁶

The books and records show that the Debtors operated at a loss each year as the Ponzi/pyramid scheme provided participants with significant and unsustainable returns on investment. The income reported on the taxpayer's return represents amounts the taxpayer received from participants for membership plans or phone packages. The deductions claimed by the taxpayer are for amounts owed to participants for advertising services, as well as other general operating expenses. For the sake of simplicity, the taxpayer is not claiming a deduction for certain other expenses (e.g., commissions due to participants for product and membership plan sales) as the deductions reported on the return far exceed the taxpayer's taxable income.

This tax return has been prepared using the best available information, which was limited in nature and in the ability to verify its accuracy to source documents. The trustee and his advisors have no personal knowledge regarding the historical operations of the company nor do they have access to former employees or many of the records.

Section 6001 of the IRC states that every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for

* * * *

⁶ Also, in 2012, the taxpayer filed a Form 7004 and claimed these same expenses. One of the requirements of the automatic extension of time to file a tax return is the proper estimation of the final tax liability for the taxable year. See Sec. 1.6081-4(a)(4), Income Tax Regs. The failure to estimate properly the final tax liability on Form 7004 can invalidate the automatic extension and subject the taxpayer to an addition to tax pursuant to section 6651(a)(1) for failure to timely file the return. *Crocker v. Commissioner*, 92 T.C. 899, 1989 WL 45940 (1989). In the case at hand, the taxpayer (or its representative) filed a Form 7004 and submitted a cashier's check ("installment payment") for a very specific amount, \$15,792,982.00 in late March 2014. Then a few weeks after the payment, on or about April 14, 2014, the taxpayer filed for bankruptcy. In September of 2016, the Bankruptcy Trustee filed a late 2013 tax return (Form 1120) stating he used estimates and requested a refund for almost the same exact amount -- \$15,858,111.00. However, \$15,532,440⁶ was paid to the Trustee on or about December 26, 2016, while Exam was still in the process of reviewing the 2013 tax year. The Service's argument with respect to the Form 7004 is that a taxpayer must make a reasonable effort to locate or obtain the necessary information to make a proper estimation to comply with the regulations for an extension. In this case, Joe Craft (a principal of the taxpayer, who presumably had the best available information and knew the "business"), made an estimate on the Form 7004 and the Service views the income as reported on that form as more reliable than the Trustee's after-the-fact estimates (on the delinquent Form 1120) because the Trustee does not know the "business" and the records he relied on for such estimates are questionable. As discussed earlier, a tax return is not supposed to be based on estimates.

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

tax under this title. The only records which an employer shall be required to keep under this section in connection with charged tips shall be charge receipts, records necessary to comply with Link section 6053(c), and copies of statements furnished by employees under Link section 6053(a).

Treas. Reg. § 1.6001-1 Records: (a) In general. —Except as provided in paragraph (b) of this section, any person subject to tax under subtitle A of the Code (including a qualified State individual income tax which is treated pursuant to section 6361(a) as if it were imposed by chapter 1 of subtitle A), or any person required to file a return of information with respect to income, shall keep such permanent books of account or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any return of such tax or information.

The books or records required by this section shall be kept at all times available for inspection by authorized internal revenue officers or employees, and shall be retained so long as the contents thereof may become material in the administration of any internal revenue law. Treas.Reg. § 1.6001-1.

The taxpayer cannot substantiate that any of the Advertising Credit expense is for ordinary and necessary business expenses paid or incurred during the course of the year ended 201412. Therefore, these expenses should be disallowed in accordance with §1.6001-1, which states that a company “shall keep such permanent books of account or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any return of such tax or information”.

Thus, the Advertising Credit Expense/Compensation Expense is disallowed as deductions on the return.

5. Other Arguments Put Forth By the Taxpayer

Next, the taxpayer put forth arguments for deductibility under (a) illegal operations, (b) goodwill under Treasury Reg 1.162-20(a)(2), and (c) kickbacks. The government disagrees with all of these arguments because, even if the payments are not characterized as non-deductible payments in furtherance of illegal activities, the payments would not qualify for a deduction as advertising expenses or compensation for services.

Furthermore, the taxpayer argues in this case, section 404 of the Code does not limit the Taxpayer’s deduction, in the year the credits were provided, since the credits were a form of income to Participants equivalent to cash. The government does not find the taxpayer’s IRC §§ 404 and 83 persuasive because if the “advertising credits” are deemed securities that pay dividends, securities are not the equivalent of cash.

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

Taxpayer's Position:

The taxpayer's position is unknown at this time.

Conclusion:

The claimed advertising credits expense is disallowed in full on the 2014 tax return in the amount of \$2,442,705,606.

Form 5701 (Rev. Aug. 1980)	Department of the Treasury - Internal Revenue Service NOTICE of PROPOSED ADJUSTMENT
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Name of taxpayer Telexfree, LLC	Issue No. 002
------------------------------------	------------------

Name and title of person to whom delivered Stephen Darr, Bankruptcy Trustee	Date: 11/07/2017
--	---------------------

Entity for this proposed adjustment Telexfree, LLC

Based on the information we now have available and our discussions with you, we believe that the proposed adjustments listed below should be included in the revenue agent's report. However, if you have additional information that would alter or reverse this proposal, please furnish this information as soon as possible.

Years	Amount	Account or Return Line	Sain No.	Issue Code
201412		Failure to File Penalties	005	

ISSUE
SEE ATTACHED FORM 886-A

REASONS FOR PROPOSED ADJUSTMENT

If the explanation of the adjustment will be longer than the space provided below, the entire explanation should begin on Form 886-A (Explanation of Items)

See attached Form 886-A.

Response due by: November 15, 2017

Taxpayer Representative's action

Name: _____ Title: _____ Date: _____
() Agreed () Agreed in Part () Disagreed () Will submit more information by: _____

Revenue Agent Christine DeRosa, 1033183	Date 11/07/2017
--	--------------------

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

Issue:

Whether the taxpayer is subject to the Failure to File (FTF) Penalty under Section 6651(a)(1) of the Internal Revenue Code.

Facts:

The taxpayer failed to file its 2013 tax return by the due date of the return including extensions.

Date return due (including extensions)	15-Sep-2015
Date return filed	20-Jun-2017
Months delinquent (not to exceed 5)	5
Total Corrected tax liability	53,927,964
Payments on or prior to original due date of return	0
Line 4 Less line 5	53,927,964
FTF penalty rate (5% times months delinquent from line 3)	25%
Penalty - Line 7 multiplied by line 6	13,481,991

Law and Argument:

Because the taxpayer's income tax return was not filed within the time limit prescribed by law and the taxpayer has not shown that such failure to timely file its return was due to reasonable cause, an addition to the tax is charged as shown above, in accordance with Section 6651(a)(1) of the Internal Revenue Code.

Taxpayer's Position:

The taxpayer's position is unknown at this time.

Conclusion:

The taxpayer is subject to the Failure to File penalty in the amount of \$13,481,991.

Form 5701 (Rev. Aug. 1980)	Department of the Treasury - Internal Revenue Service NOTICE of PROPOSED ADJUSTMENT		
Name of taxpayer Telexfree, LLC			Issue No. 003
Name and title of person to whom delivered Stephen Darr, Bankruptcy Trustee			Date: 11/07/2017
Entity for this proposed adjustment Telexfree, LLC			

Based on the information we now have available and our discussions with you, we believe that the proposed adjustments listed below should be included in the revenue agent's report. However, if you have additional information that would alter or reverse this proposal, please furnish this information as soon as possible.

Years	Amount	Account or Return Line	Sain No.	Issue Code
201412	2,578,363,363	Net Operating Loss	005	

ISSUE
SEE ATTACHED FORM 886-A

REASONS FOR PROPOSED ADJUSTMENT

If the explanation of the adjustment will be longer than the space provided below, the entire explanation should begin on Form 886-A (Explanation of Items)

See attached Form 886-A.

Response due by: November 15, 2017

Taxpayer Representative's action

Name: _____ Title: _____ Date: _____
() Agreed () Agreed in Part () Disagreed () Will submit more information by: _____

Revenue Agent Christine DeRosa, 1033183	Date 11/07/2017
--	--------------------

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer Telexfree, LLC		Year/Period Ended 201412

Issue:

Whether the taxpayer has a net operating loss ("NOL") after the Proposed Adjustments pertaining to its 2013 and 2014 tax returns?

Short Answer:

No. The taxpayer does not have a net operating loss after the 2013 and 2014 adjustments to its taxable income.

Facts:

The taxpayer prepared its 2014 NOL Carry Over ("C/O") schedule creating an NOL C/O in the amount of \$2,578,363,363. However, this taxpayer-prepared NOL schedule does not account for the 2013 and 2014 increase to taxable income in the amount of \$3,251,638,538.

Year End	NOL C/O at BOY	NOL Generated	Adjustment to NOL (see Note A)	NOL Used/Carried back	C/O to Next Year
12/31/2012	-	1,239,943	(341,254)	-	898,689
12/31/2013	898,689	2,101,985,935	(1,813,146,971)	-	289,737,653
12/31/2014	289,737,653	2,288,625,710		-	2,578,363,363
					2,578,363,363

The 2013 and 2014 adjustments are summarized below.

	Decryption	Adjustments to NOL
2013	Bad Debts	186,344,898
2013	Agent Commissions	622,588,034
2014	Advertising Credit	2,442,705,606
	Total Adjustments	3,251,638,538
	Adjusted NOL CF	-

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INSOLVENCY

Exhibit

11

BY CERTIFIED MAIL

March 7, 2018

Internal Revenue Service
Centralized Insolvency Operation
P.O. Box 7346
Philadelphia, PA 19101-7346

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Form: 1120
Tax Periods: December 31, 2014

REQUEST FOR PROMPT DETERMINATION

Dear Sir or Madam:

On behalf of TelexFree, LLC ("Taxpayer"), enclosed please find amended Form 1120, *U.S. Corporation Income Tax Return*, for the period ended December 31, 2014. The enclosed returns, which report no tax due and a loss of \$535,594,148, supplement the Taxpayer's prior prompt determination request for this period submitted in June 2017. The Taxpayer respectfully requests that you process the enclosed returns. Pursuant to section 505(b) of the Bankruptcy Code, the Taxpayer provides the following information pursuant to Revenue Procedure 2006-24, as modified by Announcement 2011-77:

- 1) Return type: 1120; Tax period: 2014
- 2) Location where prior return(s), if any, were filed:

Internal Revenue Service
Centralized Insolvency Operation
P.O. Box 7346
Philadelphia, PA 19101-7346

- 3) Debtor's name: TelexFree, LLC
- 4) Debtor's EIN: [REDACTED]
- 5) Type of bankruptcy estate: Chapter 11
- 6) Bankruptcy lead case number: 14-40987-MSH
- 7) Bankruptcy court where case pending: United States Bankruptcy Court, District of Massachusetts, Central Division

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MAR 28 2017

YBT

March 7, 2018

Page 2

Under the penalties of perjury, I declare that I have examined this application, and, to the best of my knowledge and belief, it is true, correct, and complete.

If you have any questions or require any additional information, please do not hesitate to contact me.

Sincerely,
Estate of TelexFree, LLC

A handwritten signature in black ink that reads "Stephen Darr". The signature is written in a cursive, flowing style.

Stephen Darr
Bankruptcy Trustee

Form **1120X**
(Rev. January 2011)
Department of the Treasury
Internal Revenue Service

**Amended U.S. Corporation
Income Tax Return**

OMB No. 1545-0132

For tax year ending
12/31/2014
(Enter month and year.)

Name	TELEXFREE, LLC		Employer identification number	
Number, street, and room or suite no. (If a P.O. box, see instructions.)	C/O STEPHEN DARR, BKR TTEE 100 HIGH ST #2301			
City or town, state, and ZIP code	BOSTON, MA	02110	Telephone number (optional)	
Enter name and address used on original return (If same as above, write "Same.")				
125 SUMMER STREET #1805 BOSTON, MA 02110				
Internal Revenue Service Center where original return was filed	CENTRALIZED INSOLVENCY OPERATION PO BOX 7346			

Fill in applicable items and use Part II on the back to explain any changes

Part I	Income and Deductions (see instructions)	(a) As originally reported or as previously adjusted	(b) Net change - increase or (decrease) - explain in Part II	(c) Correct amount
1	Total income	161,550,353.	1,904,302,125.	2,065,852,478.
2	Total deductions	2,450,176,063.	151,270,563.	2,601,446,626.
3	Taxable income. Subtract line 2 from line 1	-2,288,625,710.	1,753,031,562.	-535,594,148.
4	Total tax			

Payments and Credits (see instructions)

5a	Overpayment in prior year allowed as a credit	5a		
b	Estimated tax payments	5b		
c	Refund applied for on Form 4466	5c		
d	Subtract line 5c from the sum of lines 5a and 5b	5d		
e	Tax deposited with Form 7004	5e		
f	Credit from Form 2439	5f		
g	Credit for federal tax on fuels and other refundable credits	5g		
6	Tax deposited or paid with (or after) the filing of the original return	6		
7	Add lines 5d through 6, column (c)	7		
8	Overpayment, if any, as shown on original return or as later adjusted	8		
9	Subtract line 8 from line 7	9		

Tax Due or Overpayment (see instructions)

10	Tax due. Subtract line 9 from line 4, column (c). If paying by check, make it payable to the "United States Treasury"	10	
11	Overpayment. Subtract line 4, column (c), from line 9	11	
12	Enter the amount of line 11 you want: Credited to 20 Estimated tax Refunded	12	

Sign Here

Under penalties of perjury, I declare that I have filed an original return and that I have examined this amended return, including accompanying schedules and statements, and to the best of my knowledge and belief, this amended return is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of preparer: Stephen Darr Date: 3/7/18 Title: Trustee

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
JOSEPH MIDDLETON	Joseph Middleton	3/7/18		
Firm's name	Firm's EIN			
KPMG LLP				
Firm's address	Phone no.			
60 SOUTH STREET	617-988-1000			
BOSTON, MA	02111			

For Paperwork Reduction Act Notice, see instructions.

Form 1120X (Rev. 1-2011)

Form 1120X (Rev. 1-2011)

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Part II **Explanation of Changes to Items in Part I** (Enter the line number from page 1 for the items you are changing, and give the reason for each change. Show any computation in detail. Also, see **What To Attach** in the instructions.)

If the change is due to a net operating loss carryback, a capital loss carryback, or a general business credit carryback, see **Carryback Claims** in the instructions, and check here ☐

AMENDED RETURN CHANGES SEE STATEMENT 1

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Tax Period: December 31, 2014

2014 AMENDED RETURN STATEMENT

The taxpayer is amending its original return to address inconsistencies with SIG (TelexFree's information management system) and the general ledgers used to prepare the original return and claim additional deductions. The amended return reflects all income the TelexFree entities received during 2014 for the sale of membership plans and phone packages according to SIG.

In addition, the 2014 amended return claims casualty loss deductions for assets seized by the SEC during 2014, and bankruptcy estate operating expenses, items that were not included in the original return.

11 Form 1120X for 2014 Page 6 of 22
** AS AMENDED ** REQUEST FOR PROMPT DETERMINATION

U.S. Corporation Income Tax Return

OMB No. 1545-0123

2014

Form 1120
Department of the Treasury
Internal Revenue Service

For calendar year 2014 or tax year beginning ending

Information about Form 1120 and its separate instructions is at www.irs.gov/form1120.

A Check if:

- 1a Consolidated return (attach Form 851) ☐
- b Life/nonlife consolidated return ☐
- 2 Personal holding co. (attach Sch. PH) ☐
- 3 Personal service corp. (see instructions) ☐

4 Schedule M-3 attached ☐TYPE
OR
PRINT

Name TELEXFREE, LLC

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Number, street, and room or suite no. If a P.O. box, see instructions.

100 HIGH STREET #2301

City or town, state, or province, country and ZIP or foreign postal code

BOSTON, MA 02110

B Employer identification number

C Date incorporated

07/19/2012

D Total assets (see instructions)

\$ NONE

E Check if: (1) Initial return (2) Final return (3) Name change (4) Address change

Income

1a Gross receipts or sales	1a	2,067,416,945.	1c	2,067,415,520.
b Returns and allowances	1b	1,425.	2	1,563,042.
c Balance. Subtract line 1b from line 1a			3	2,065,852,478.
2 Cost of goods sold (attach Form 1125-A)			4	
3 Gross profit. Subtract line 2 from line 1c			5	
4 Dividends (Schedule C, line 19)			6	
5 Interest			7	
6 Gross rents			8	
7 Gross royalties			9	
8 Capital gain net income (attach Schedule D (Form 1120))			10	
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			11	2,065,852,478.
10 Other income (see instructions - attach statement)				
11 Total income. Add lines 3 through 10				

Deductions (See instructions for limitations on deductions.)

12 Compensation of officers (see instructions - attach Form 1125-E)	12	
13 Salaries and wages (less employment credits)	13	19,170.
14 Repairs and maintenance	14	990.
15 Bad debts	15	
16 Rents	16	30,763.
17 Taxes and licenses	17	61,291.
18 Interest	18	
19 Charitable contributions	19	NONE
20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	20	
21 Depletion	21	
22 Advertising	22	17,721.
23 Pension, profit-sharing, etc., plans	23	
24 Employee benefit programs	24	
25 Domestic production activities deduction (attach Form 8903)	25	
26 Other deductions (attach statement)	26	2,601,316,691.
27 Total deductions. Add lines 12 through 26	27	2,601,446,626.
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11	28	-535,594,148.
29a Net operating loss deduction (see instructions)	29a	
b Special deductions (Schedule C, line 20)	29b	
c Add lines 29a and 29b	29c	

Tax, Refundable Credits, and Payments

30 Taxable income. Subtract line 29c from line 28 (see instructions)	30	-535,594,148.
31 Total tax (Schedule J, Part I, line 14)	31	NONE
32 Total payments and refundable credits (Schedule J, Part II, line 21)	32	
33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>	33	
34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed	34	NONE
35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	35	
36 Enter amount from line 35 you want: Credited to 2015 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>	36	

Sign

Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer Stephen Darr Date 3/7/18 Title TrusteeMay the IRS discuss this return with the preparer shown below (see instructions)? ☒ Yes ☐ No

Paid

Preparer

Use Only

Print/Type preparer's name

JOSEPH MIDDLETON

Preparer's signature

Joseph Middleton

Date

3/7/18Check ☐ if

self-employed

PTIN

Firm's EIN

Phone no.

617-988-1000

For Paperwork Reduction Act Notice, see separate instructions.

Form 1120 (2014)

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TELEXPREE, LLC
Form 1120 (2014)

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Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) x (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		See instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	Total. Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471).			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4			
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b			

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TELEFREE, LLC

Form 1120 (2014)

Page 3

Schedule J Tax Computation and Payment (see instructions)

Part I-Tax Computation

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)).		2	
2	Income tax. Check if a qualified personal service corporation (see instructions).		3	NONE
3	Alternative minimum tax (attach Form 4626)		4	NONE
4	Add lines 2 and 3			
5a	Foreign tax credit (attach Form 1118)	5a		
b	Credit from Form 8834 (see instructions)	5b		
c	General business credit (attach Form 3800)	5c		
d	Credit for prior year minimum tax (attach Form 8827)	5d		
e	Bond credits from Form 8912	5e		
6	Total credits. Add lines 5a through 5e	6		
7	Subtract line 6 from line 4	7		NONE
8	Personal holding company tax (attach Schedule PH (Form 1120))	8		
9a	Recapture of investment credit (attach Form 4255)	9a		
b	Recapture of low-income housing credit (attach Form 8611)	9b		
c	Interest due under the look-back method - completed long-term contracts (attach Form 8897)	9c		
d	Interest due under the look-back method - income forecast method (attach Form 8886)	9d		
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e		
f	Other (see instructions - attach statement)	9f		
10	Total. Add lines 9a through 9f	10		
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31	11		NONE

Part II-Payments and Refundable Credits

12	2013 overpayment credited to 2014	12	
13	2014 estimated tax payments	13	
14	2014 refund applied for on Form 4466	14	()
15	Combine lines 12, 13, and 14	15	
16	Tax deposited with Form 7004	16	
17	Withholding (see instructions)	17	
18	Total payments. Add lines 15, 16, and 17	18	
19	Refundable credits from:		
a	Form 2439	19a	
b	Form 4136	19b	
c	Form 8827, line 8c	19c	
d	Other (attach statement - see instructions)	19d	
20	Total credits. Add lines 19a through 19d	20	
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32	21	

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) _____	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. <u>454390</u>		
b	Business activity <u>DIRECT SALES</u>		
c	Product or service <u>COMMUNICATIONS</u>		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation _____		X
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G).		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G).		X

Form 1120 (2014)

TELEXFREE, LLC

Form 1120 (2014)

Schedule K Other Information *continued (see instructions)*

Page 4

5 At the end of the tax year, did the corporation:

- a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock
TELEXFREE FINANCIAL, INC		US	100.000

- b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

- 6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.) If "Yes," file Form 5452, Corporate Report of Nondividend Distributions.

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.

- 7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock? For rules of attribution, see section 318. If "Yes," enter:

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

(i) Percentage owned 30.000

and (ii) Owner's country BR

(c) The corporation may have to file Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached 2

- 8 Check this box if the corporation issued publicly offered debt instruments with original issue discount. If checked, the corporation may have to file Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments.

<input type="checkbox"/>

9 Enter the amount of tax-exempt interest received or accrued during the tax year \$

10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) 2

- 11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here. If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.

<input type="checkbox"/>

12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 20a.) \$

- 13 Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year and its total assets at the end of the tax year less than \$250,000?

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year \$

- 14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)? If "Yes," complete and attach Schedule UTP.

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

15a Did the corporation make any payments in 2014 that would require it to file Form(s) 1099?

<input checked="" type="checkbox"/>

b If "Yes," did or will the corporation file required Forms 1099?

<input checked="" type="checkbox"/>

- 16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

- 17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax-deferred transaction?

Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>

- 18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million?

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

Form 1120 (2014)

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TELEXPREE, LLC

Form 1120 (2014)

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Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1 Cash			37,640,973.		
2a Trade notes and accounts receivable					
b Less allowance for bad debts					
3 Inventories					
4 U.S. government obligations					
5 Tax-exempt securities (see instructions)					
6 Other current assets (attach statement)	STMT 4		29,951,194.		NONE
7 Loans to shareholders			91,257.		NONE
8 Mortgage and real estate loans					
9 Other investments (attach statement)			27,368,369.		NONE
10a Buildings and other depreciable assets		258,495.		NONE	
b Less accumulated depreciation		(38,550.)	219,945.	(NONE)	NONE
11a Depletable assets					
b Less accumulated depletion					
12 Land (net of any amortization)					
13a Intangible assets (amortizable only)					
b Less accumulated amortization					
14 Other assets (attach statement)	STMT 4		107,368.		NONE
15 Total assets			95,379,106.		NONE
Liabilities and Shareholders' Equity					
16 Accounts payable					
17 Mortgages, notes, bonds payable in less than 1 year					
18 Other current liabilities (attach statement)	STMT 4		54,512,623.		NONE
19 Loans from shareholders			50.		NONE
20 Mortgages, notes, bonds payable in 1 year or more					
21 Other liabilities (attach statement)	STMT 4		61,335,098.		NONE
22 Capital stock: a Preferred stock					
b Common stock					
23 Additional paid-in capital					
24 Retained earnings - Appropriated (attach statement)					
25 Retained earnings - Unappropriated			-20,468,665.		NONE
26 Adjustments to shareholders' equity (attach statement)					
27 Less cost of treasury stock					
28 Total liabilities and shareholders' equity			95,379,106.		NONE

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: The corporation may be required to file Schedule M-3 (see instructions).

1 Net income (loss) per books	-552,373,891.	7 Income recorded on books this year not included on this return (itemize): Tax-exempt interest \$	
2 Federal income tax per books			
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize):		8 Deductions on this return not charged against book income this year (itemize): a Depreciation \$ b Charitable contributions \$	NONE
5 Expenses recorded on books this year not deducted on this return (itemize): a Depreciation \$ b Charitable contributions \$ c Travel and entertainment \$	529. SEE STATEMENT 5 16,779,214.	9 Add lines 7 and 6	NONE
6 Add lines 1 through 5	-535,594,148.	10 Income (page 1, line 28) - line 6 less line 9	-535,594,148.

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1 Balance at beginning of year	-20,468,665.	5 Distributions: a Cash	
2 Net income (loss) per books	-552,373,891.	b Stock	
3 Other increases (itemize):		c Property	
SEE STATEMENT 5	572,842,556.	6 Other decreases (itemize):	
4 Add lines 1, 2, and 3	NONE	7 Add lines 5 and 6	
		8 Balance at end of year (line 4 less line 7)	NONE

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Form 1120 (2014)

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USA-000052

**SCHEDULE G
(Form 1120)**

(Rev. December 2011)
Department of the Treasury
Internal Revenue Service

**Information on Certain Persons Owning the
Corporation's Voting Stock**

▶ Attach to Form 1120.
▶ See instructions on page 2.

OMB No. 1545-0123

Name

TELEXFREE, LLC

C/O STEPHEN DARR, BANKRUPTCY TRUSTEE

Employer identification number (EIN)

Part I Certain Entities Owning the Corporation's Voting Stock. (Form 1120, Schedule K, Question 4a). Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock

Part II Certain Individuals and Estates Owning the Corporation's Voting Stock. (Form 1120, Schedule K, Question 4b). Complete columns (i) through (iv) below for any individual or estate that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock
CARLOS WANZELER		US	50.000
JAMES MERRILL		US	50.000

For Paperwork Reduction Act Notice, see the instructions for Form 1120.

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Schedule G (Form 1120) (Rev. 12-2011)

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USA-000053

Form **4626**

Alternative Minimum Tax - Corporations

OMB No. 1545-0123

Department of the Treasury
Internal Revenue Service

► Attach to the corporation's tax return.

► Information about Form 4626 and its separate instructions is at www.irs.gov/form4626.

2014

Name TELEXPREE, LLC		Employer identification number
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		
Note: See the instructions to find out if the corporation is a small corporation exempt from the alternative minimum tax (AMT) under section 55(e).		
1	Taxable income or (loss) before net operating loss deduction	1 -535594148.
2	Adjustments and preferences:	
a	Depreciation of post-1986 property	2a
b	Amortization of certified pollution control facilities	2b
c	Amortization of mining exploration and development costs	2c
d	Amortization of circulation expenditures (personal holding companies only)	2d
e	Adjusted gain or loss	2e
f	Long-term contracts	2f
g	Merchant marine capital construction funds	2g
h	Section 833(b) deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h
i	Tax shelter farm activities (personal service corporations only)	2i
j	Passive activities (closely held corporations and personal service corporations only)	2j
k	Loss limitations	2k
l	Depletion	2l
m	Tax-exempt interest income from specified private activity bonds	2m
n	Intangible drilling costs	2n
o	Other adjustments and preferences SEE STATEMENT 6	2o NONE
3	Pre-adjustment alternative minimum taxable income (AMTI). Combine lines 1 through 2o	3 -535594148.
4	Adjusted current earnings (ACE) adjustment:	
a	ACE from line 10 of the ACE worksheet in the instructions	4a -535594148.
b	Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference as a negative amount (see instructions)	4b
c	Multiply line 4b by 75% (.75). Enter the result as a positive amount	4c
d	Enter the excess, if any, of the corporation's total increases in AMTI from prior year ACE adjustments over its total reductions in AMTI from prior year ACE adjustments (see instructions). Note: You must enter an amount on line 4d (even if line 4b is positive)	4d
e	ACE adjustment.	4e
	• If line 4b is zero or more, enter the amount from line 4c	
	• If line 4b is less than zero, enter the smaller of line 4c or line 4d as a negative amount	
5	Combine lines 3 and 4e. If zero or less, stop here; the corporation does not owe any AMT.	5 -535594148.
6	Alternative tax net operating loss deduction (see instructions)	6
7	Alternative minimum taxable income. Subtract line 6 from line 5. If the corporation held a residual interest in a REMIC, see instructions.	7 -535594148.
8	Exemption phase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):	
a	Subtract \$150,000 from line 7 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-.	8a NONE
b	Multiply line 8a by 25% (.25).	8b NONE
c	Exemption. Subtract line 8b from \$40,000 (if completing this line for a member of a controlled group, see instructions). If zero or less, enter -0-.	8c 40,000.
9	Subtract line 8c from line 7. If zero or less, enter -0-.	9
10	Multiply line 9 by 20% (.20)	10
11	Alternative minimum tax foreign tax credit (AMTFTC) (see instructions)	11
12	Tentative minimum tax. Subtract line 11 from line 10.	12
13	Regular tax liability before applying all credits except the foreign tax credit	13
14	Alternative minimum tax. Subtract line 13 from line 12. If zero or less, enter -0-. Enter here and on Form 1120, Schedule J, line 3, or the appropriate line of the corporation's income tax return	14 NONE

For Paperwork Reduction Act Notice, see separate instructions.

Form 4626 (2014)

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USA-000054

TELEFREE, LLC

Adjusted Current Earnings (ACE) Worksheet

Keep for Your Records

► See ACE Worksheet Instructions.

1	Pre-adjustment AMTI. Enter the amount from line 3 of Form 4626	1	-535594148.
2	ACE depreciation adjustment:		
a	AMT depreciation	2a	NONE
b	ACE depreciation:		
(1)	Post-1993 property	2b(1)	NONE
(2)	Post-1989, pre-1994 property	2b(2)	
(3)	Pre-1990 MACRS property	2b(3)	
(4)	Pre-1990 original ACRS property	2b(4)	
(5)	Property described in sections 168(f)(1) through (4)	2b(5)	
(6)	Other property	2b(6)	
(7)	Total ACE depreciation. Add lines 2b(1) through 2b(6)	2b(7)	NONE
c	ACE depreciation adjustment. Subtract line 2b(7) from line 2a.	2c	NONE
3	Inclusion in ACE of items included in earnings and profits (E&P):		
a	Tax-exempt interest income	3a	
b	Death benefits from life insurance contracts	3b	
c	All other distributions from life insurance contracts (including surrenders)	3c	
d	Inside buildup of undistributed income in life insurance contracts	3d	
e	Other items (see Regulations sections 1.56(g)-1(c)(5)(iii) through (ix) for a partial list)	3e	
f	Total increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e	3f	
4	Disallowance of items not deductible from E&P:		
a	Certain dividends received	4a	
b	Dividends paid on certain preferred stock of public utilities that are deductible under section 247	4b	
c	Dividends paid to an ESOP that are deductible under section 404(k)	4c	
d	Nonpatronage dividends that are paid and deductible under section 1382(c)	4d	
e	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)	4e	
f	Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e	4f	
5	Other adjustments based on rules for figuring E&P:		
a	Intangible drilling costs	5a	
b	Circulation expenditures	5b	
c	Organizational expenditures	5c	
d	LIFO inventory adjustments	5d	
e	Installment sales	5e	
f	Total other E&P adjustments. Combine lines 5a through 5e	5f	
6	Disallowance of loss on exchange of debt pools	6	
7	Acquisition expenses of life insurance companies for qualified foreign contracts	7	
8	Depletion	8	
9	Basis adjustments in determining gain or loss from sale or exchange of pre-1994 property	9	
10	Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 4a of Form 4626	10	-535594148.

JSA

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USA-000055

Form **1125-A**

(Rev. December 2012)

Department of the Treasury
Internal Revenue Service

Cost of Goods Sold

▶ Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.
▶ Information about Form 1125-A and its instructions is at www.irs.gov/form1125a.

OMB No. 1545-2225

Name TELEXFREE, LLC		Employer identification number
C/O STEPHEN DARR, BANKRUPTCY TRUSTEE		
1	Inventory at beginning of year	1
2	Purchases	2
3	Cost of labor	3
4	Additional section 263A costs (attach schedule)	4
5	Other costs (attach schedule) SEE STATEMENT 7	5
6	Total. Add lines 1 through 5	6
7	Inventory at end of year	7
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8
		1,563,042.
9a Check all methods used for valuing closing inventory:		
(i) <input type="checkbox"/> Cost		
(ii) <input type="checkbox"/> Lower of cost or market		
(iii) <input type="checkbox"/> Other (Specify method used and attach explanation.) ▶		
b Check if there was a writedown of subnormal goods ▶ <input type="checkbox"/>		
c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ <input type="checkbox"/>		
d If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO <input type="text"/> 9d		
e If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No		
f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation <input type="checkbox"/> Yes <input type="checkbox"/> No		

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (defined below), you can adopt or change your accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method).

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, you can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See the instructions for lines 2 and 7.

For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on adopting or changing to this method of accounting, see Form 3115, Application for Change in Accounting Method, and its instructions.

Qualifying taxpayer. A qualifying taxpayer is a taxpayer that, (a) for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3 prior tax years and (b) its business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2001-10, 2001-2 I.R.B. 272.

Qualifying small business taxpayer. A qualifying small business taxpayer is a taxpayer that, (a) for each prior tax year

ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years, (b) whose principal business activity is not an ineligible activity, and (c) whose business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2002-28, 2002-18, I.R.B. 815.

Uniform capitalization rules. The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

For Paperwork Reduction Act Notice, see instructions.

Form **1125-A** (12-2012)

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE	46,808.
PAYROLL TAX EXPENSE	14,483.

TOTAL	61,291.
	=====

STATEMENT 1

1472KP 1592

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 19 - CONTRIBUTIONS DEDUCTION

1. TAXABLE INCOME (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-535,594,148.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. TAXABLE INCOME WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-535,594,148.
5. CONTRIBUTION DEDUCTION LIMITATION (TAXABLE INCOME X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

LINE 19 - 5 YEAR CONTRIBUTION CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CONVERTED TO NOL CARRYOVER	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE		7,500.
TOTAL	7,500.	NONE		7,500.

STATEMENT 2

1472KP 1592

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT	34,021.
BANK CHARGES	3,629.
EVENTS	6,668.
FILING AND REGISTERED AGENT FEES	269,145.
LEGAL AND PROFESSIONAL FEES	2,140,637.
165 LOSS SEC ASSET SEIZURE	148,000,000.
ACCRUED ADMINISTRATIVE EXPENSES	3,271,988.
MERCHANT FEES	313,623.
OFFICE EXPENSES	11,482.
PAYROLL FEES	9,144.
PAYROLL EXPENSES	12,306.
PERSONNEL	47,344.
POSTAGE AND DELIVERY	90.
CONSULTING EXPENSE	3,896,209.
SOFTWARE EXPENSE	51,684.
SMALL ITEMS NOT CAPITALIZED	1,749.
SUBCONTRACTOR	283,642.
TOTAL TECHNOLOGY CONSULTANT	257,663.
WEBSITE DOMAIN	60.
GROSS CREDIT LIABILITY ACCRUAL SEE STATEMENT 3A FOR DETAIL	2,442,705,607.
TOTAL	2,601,316,691.

STATEMENT 3

1472KP 1592

12

Taxpayer: TelexFree, LLC
EIN: [REDACTED]
Tax Period: December 31, 2014

2014 Statement Regarding Gross Credit Liability Accrual

The credits deposited in Ponzi scheme users' accounts during 2014 (i.e., \$2,442,705,606) were used by participants to satisfy invoices and redeemed for cash as shown below:

\$61,335,098	Credits outstanding BOY
\$2,442,705,606	2014 Credits issued to users (deduction claimed on line 26)
(\$1,866,795,376)	Credits redeemed by users to satisfy invoices (included in gross receipts in line 1a)
(\$83,212,109)	Credits redeemed by users for cash
<hr/> \$554,033,219	Credits outstanding EOY

STATEMENT 3A

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 -

OTHER CURRENT ASSETS

	BEGINNING	ENDING
PROPERTY ON HOLD	16,222,365.	NONE
LOAN TO TELEXELECTRIC LLP	2,022,329.	NONE
LOAN TO TELEXFREE FINANCIAL	4,105,475.	NONE
LOAN TO TELEXMOBILE	500,870.	NONE
PREPAID EXPENSES	1,709,402.	NONE
LOAN TO TELEXFREE LLC	5,390,753.	NONE
TOTAL	29,951,194.	NONE

SCH L, LINE 14 - OTHER ASSETS

ORGANIZATIONAL COSTS	3,475.	NONE
SOFTWARE	97,949.	NONE
SECURITY DEPOSITS	5,944.	NONE
TOTAL	107,368.	NONE

SCH L, LINE 18 -

OTHER CURRENT LIABILITIES

ACCRUED FEDERAL INCOME TAX	19,964,029.	NONE
ACCRUED STATE TAX	3,812,940.	NONE
BRAZILLIAN HELP INC	2,672.	NONE
LOAN TO/FROM TELEXFREE LLC	5,390,753.	NONE
OTHER CURRENT LIABILITIES	17,676,275.	NONE
TELECOM TAXES PAYABLE	23,404.	NONE
COMMISSIONS PAYABLE	7,642,550.	NONE
TOTAL	54,512,623.	NONE

SCH L, LINE 21 - OTHER LIABILITIES

ACCRUED ADVERTISING CREDITS	61,335,098.	NONE
TOTAL	61,335,098.	NONE

STATEMENT 4

1472KP 1592

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TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH M-1, LINE 5 - EXPENSES RECORDED ON BOOKS NOT DEDUCTED ON RETURN

PENALTIES & SETTLEMENTS	638.
FEDERAL & STATE TAXES	16,778,576.
TOTAL	16,779,214.

SCH M-2, LINE 3 - OTHER INCREASES

SEE ATTACHMENT A	572,842,556.
TOTAL	572,842,556.

STATEMENT 5

1472KP 1592

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TELEXFREE, LLC

FORM 4626 DETAIL

LINE 20 - OTHER ADJUSTMENTS - CONTRIBUTIONS DEDUCTION

1. AMTI (EXCLUDING CONTRIBUTIONS AND DOMESTIC PRODUCTION ACTIVITIES DEDUCTION)	-535,594,148.
2. LESS: NOL CARRYOVER	
3. PLUS: CAPITAL LOSS CARRYBACK	
4. AMTI WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	-535,594,148.
5. CONTRIBUTION DEDUCTION LIMITATION (AMTI X 10%)	NONE
6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	7,500.
7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)	NONE

5 YEAR CONTRIBUTIONS CARRYOVER

YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL	7,500.	NONE	7,500.

LINE 20 - CONTRIBUTIONS ADJUSTMENT

REGULAR CONTRIBUTIONS	NONE
AMT CONTRIBUTIONS	NONE
CONTRIBUTION ADJUSTMENT	NONE

STATEMENT 6

1472KP 1592

15

TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

TELECOM & DATABASE NETWORK EXPENSE
TERMINATION

TOTAL

57,886.
1,505,156.

1,563,042.

1472KP 1592

STATEMENT 7

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This Product Contains Sensitive Taxpayer Data

Account Transcript

Request Date: 09-19-2019
Response Date: 09-19-2019
Tracking Number: 100471045344

FORM NUMBER: 1120
TAX PERIOD: Dec. 31, 2012

TAXPAYER IDENTIFICATION NUMBER: [REDACTED]

Exhibit

12

TELEXFREE LLC
JAMES M MERRILL MBR
§ S DARR BANKRUPTCY TTEE
100 HIGH ST 2301
BOSTON, MA 02110-2321-990

<<<<POWER OF ATTORNEY/TAX INFORMATION AUTHORIZATION (POA/TIA) ON FILE>>>>

--- ANY MINUS SIGN SHOWN BELOW SIGNIFIES A CREDIT AMOUNT ---

ACCOUNT BALANCE: -\$98.59
ACCRUED INTEREST: \$0.00 AS OF: Aug. 12, 2019
ACCRUED PENALTY: \$0.00 AS OF: Mar. 15, 2013

ACCOUNT BALANCE PLUS ACCRUALS
(THIS IS NOT A PAYOFF AMOUNT): -\$98.59

** INFORMATION FROM THE RETURN OR AS ADJUSTED **

NET RECEIPTS: \$2,080,067.00
TOTAL INCOME: \$2,080,067.00
TOTAL DEDUCTIONS: \$62,065.00
NET TAXABLE INCOME: \$2,018,002.00
MINIMUM TAX AMOUNT: \$0.00
ESTIMATED TAX CREDITS: \$0.00
PERSONAL HOLDING TAX: \$0.00
ES/7004 PAYMENTS CLAIMED: \$0.00
TAX PER RETURN: \$686,121.00
NAICS CD: 454390

RETURN DUE DATE OR RETURN RECEIVED DATE (WHICHEVER IS LATER) Sep. 09, 2013

PROCESSED DATE Sep. 30, 2013

TRANSACTIONS

CODE	EXPLANATION OF TRANSACTION	CYCLE DATE	AMOUNT
150	Tax return filed	201337 09-30-2013	\$686,121.00
n/a	93310-252-02926-3		
170	Penalty for not pre-paying tax	201337 09-30-2013	\$6,733.00

166	Penalty for filing tax return after the due date	201337	09-30-2013	\$154,377.22
276	Penalty for late payment of tax		09-30-2013	\$24,014.23
196	Interest charged for late payment	201337	09-30-2013	\$13,859.79
670	Payment		10-16-2013	-\$706,713.79
470	Claim pending		12-11-2013	\$0.00
670	Payment Miscellaneous Payment		12-12-2013	-\$179,986.86
960	Appointed representative		12-16-2013	\$0.00
971	Collection due process Notice of Intent to Levy -- return receipt signed		12-11-2013	\$0.00
971	Collection due process Notice of Intent to Levy -- issued		12-11-2013	\$0.00
196	Interest charged for late payment	201351	01-06-2014	\$1,496.82
776	Interest credited to your account		01-06-2014	-\$0.09
846	Refund issued		01-06-2014	\$98.68
472	Resolved claim		01-06-2014	\$0.00
961	Removed appointed representative		01-20-2014	\$0.00
960	Appointed representative		01-26-2015	\$0.00
777	Reduced or removed interest credited to your account		01-06-2014	\$0.09
740	Undelivered refund returned to IRS		01-06-2014	-\$98.68
976	Duplicate return filed		05-22-2015	\$0.00
n/a	17310-157-07310-5			
290	Additional tax assessed	201528	08-03-2015	\$0.00
n/a	17354-595-15035-5			
424	Examination Request		11-16-2016	\$0.00
420	Examination of tax return		11-18-2016	\$0.00
520	Bankruptcy or other legal action filed		04-13-2014	\$0.00
300	Additional tax assessed by examination		04-23-2018	\$0.00
n/a	29347-492-30008-8			
421	Closed examination of tax return		04-23-2018	\$0.00
424	Examination Request		07-12-2019	\$0.00
420	Examination of tax return		07-19-2019	\$0.00

This Product Contains Sensitive Taxpayer Data



This Product Contains Sensitive Taxpayer Data

Account Transcript

Request Date: 09-19-2019
Response Date: 09-19-2019
Tracking Number: 100471045344

FORM NUMBER: 1120
TAX PERIOD: Dec. 31, 2013

TAXPAYER IDENTIFICATION NUMBER: [REDACTED]

Exhibit

13

TELEXFREE LLC
JAMES M MERRILL MBR
% S DARR BANKRUPTCY TTEE
100 HIGH ST 2301
BOSTON, MA 02110-2321-990

<<<<POWER OF ATTORNEY/TAX INFORMATION AUTHORIZATION (POA/TIA) ON FILE>>>>

--- ANY MINUS SIGN SHOWN BELOW SIGNIFIES A CREDIT AMOUNT ---

ACCOUNT BALANCE: \$0.00
ACCRUED INTEREST: \$0.00 AS OF: Aug. 12, 2019
ACCRUED PENALTY: \$0.00 AS OF: Mar. 15, 2014

ACCOUNT BALANCE PLUS ACCRUALS
(THIS IS NOT A PAYOFF AMOUNT): \$0.00

** INFORMATION FROM THE RETURN OR AS ADJUSTED **

NET RECEIPTS: \$863,800,849.00
TOTAL INCOME: \$861,540,104.00
TOTAL DEDUCTIONS: \$2,963,526,039.00
NET TAXABLE INCOME: -\$2,101,985,935.00
MINIMUM TAX AMOUNT: \$0.00
ESTIMATED TAX CREDITS: \$0.00
PERSONAL HOLDING TAX: \$0.00
ES/7004 PAYMENTS CLAIMED: -\$15,858,111.00
TAX PER RETURN: \$0.00
NAICS CD: 454390

RETURN DUE DATE OR RETURN RECEIVED DATE (WHICHEVER IS LATER) Sep. 21, 2016
PROCESSED DATE Dec. 26, 2016

TRANSACTIONS

CODE	EXPLANATION OF TRANSACTION	CYCLE DATE	AMOUNT
150	Tax return filed	201649 12-26-2016	\$0.00
n/a	29310-317-00900-6		
620	Initial installment payment	03-17-2014	-\$15,792,982.00

460	Extension of time to file tax return ext. Date 09-15-2014	04-07-2014	\$0.00
621	Dishonored installment payment	03-17-2014	\$15,792,982.00
286	Penalty for dishonored payment	04-14-2014	\$315,859.64
670	Payment	03-31-2014	-\$15,792,982.00
520	Bankruptcy or other legal action filed	04-13-2014	\$0.00
960	Appointed representative	11-04-2015	\$0.00
590	Tax return not filed	07-27-2016	\$0.00
599	Tax return secured	11-14-2016	\$0.00
971	Hardship refund	11-17-2016	\$0.00
599	Tax return secured	12-12-2016	\$0.00
776	Interest credited to your account	12-26-2016	-\$55,318.03
846	Refund issued	12-26-2016	\$15,532,440.39
420	Examination of tax return	12-09-2016	\$0.00
521	Removed bankruptcy or other legal action	04-13-2014	\$0.00
520	Bankruptcy or other legal action filed	04-13-2014	\$0.00
521	Removed bankruptcy or other legal action	04-13-2014	\$0.00
520	Bankruptcy or other legal action filed	04-13-2014	\$0.00
521	Removed bankruptcy or other legal action	04-13-2014	\$0.00
520	Bankruptcy or other legal action filed	04-13-2014	\$0.00
290	Additional tax assessed	201726 07-17-2017	\$0.00
n/a	60354-573-00001-7		
560	IRS can assess tax until 02-18-2020	10-31-2017	\$0.00

This Product Contains Sensitive Taxpayer Data



This Product Contains Sensitive Taxpayer Data

Account Transcript

Request Date: 09-19-2019
Response Date: 09-19-2019
Tracking Number: 100471045344

FORM NUMBER: 1120
TAX PERIOD: Dec. 31, 2014

TAXPAYER IDENTIFICATION NUMBER: [REDACTED]

Exhibit

14

TELEXFREE LLC
JAMES M MERRILL MBR
% S DARR BANKRUPTCY TTEE
100 HIGH ST 2301
BOSTON, MA 02110-2321-990

<<<<POWER OF ATTORNEY/TAX INFORMATION AUTHORIZATION (POA/TIA) ON FILE>>>>

--- ANY MINUS SIGN SHOWN BELOW SIGNIFIES A CREDIT AMOUNT ---

ACCOUNT BALANCE: \$0.00
ACCRUED INTEREST: \$0.00 AS OF: Aug. 12, 2019
ACCRUED PENALTY: \$0.00 AS OF: Mar. 15, 2015

ACCOUNT BALANCE PLUS ACCRUALS
(THIS IS NOT A PAYOFF AMOUNT): \$0.00

** INFORMATION FROM THE RETURN OR AS ADJUSTED **

NET RECEIPTS: \$163,113,395.00
TOTAL INCOME: \$161,550,353.00
TOTAL DEDUCTIONS: \$2,450,176,063.00
NET TAXABLE INCOME: -\$2,288,625,710.00
MINIMUM TAX AMOUNT: \$0.00
ESTIMATED TAX CREDITS: \$0.00
PERSONAL HOLDING TAX: \$0.00
ES/7004 PAYMENTS CLAIMED: \$0.00
TAX PER RETURN: \$0.00
NAICS CD: 454390

RETURN DUE DATE OR RETURN RECEIVED DATE (WHICHEVER IS LATER) Jul. 06, 2017

PROCESSED DATE Sep. 04, 2017

TRANSACTIONS

CODE	EXPLANATION OF TRANSACTION	CYCLE DATE	AMOUNT
150	Tax return filed	201733 09-04-2017	\$0.00
n/a	29310-217-01522-7		
460	Extension of time to file tax return ext. Date 09-15-2015	03-16-2015	\$0.00

960	Appointed representative	11-04-2015	\$0.00
590	Tax return not filed	03-09-2017	\$0.00
599	Tax return secured	07-07-2017	\$0.00
424	Examination Request	08-30-2017	\$0.00
420	Examination of tax return	09-01-2017	\$0.00
520	Bankruptcy or other legal action filed	04-13-2014	\$0.00

This Product Contains Sensitive Taxpayer Data