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
))
STEPHEN DARR,) Adv. Proc. No. 18-04091
Plaintiff and) Judge Melvin S. Hoffman
Counterclaim Defendant,)
v.)
v.)
UNITED STATES OF AMERICA,)
DEPARTMENT OF THE TREASURY,)
INTERNAL REVENUE SERVICE,)
Defendant and)
Counterclaim Plaintiff.)
)

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

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the Commonwealth of Massachusetts. (Ex. 1, \P 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

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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." ($\mathbf{Ex. 1}$, ¶ 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

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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-

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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 Officer, 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

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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

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\$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

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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 "COMMISIONS [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

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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,

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- 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.

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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

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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.

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This Adversary Proceeding

- 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).)
- 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,

RICHARD E. ZUCKERMAN
Principal Deputy Assistant Attorney General
U.S. Department of Justice, Tax Division

/s/ Lauren E. Hume_

LAUREN E. HUME Trial Attorney, Tax Division U.S. Department of Justice P.O. Box 55 Washington, D.C. 20044 202-307-2279 (v) 202-514-5238 (f) Lauren.E.Hume@usdoj.gov Case 18-04091 Doc 54 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Main Document Page 18 of 18

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 adposting 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 remitted 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. 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

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 Ympatcus 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"), 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 99TelexFree 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.

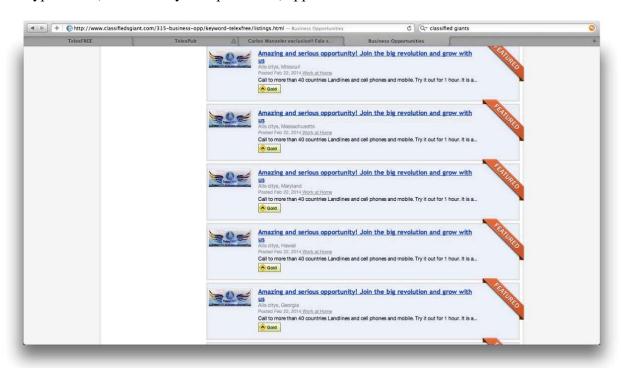
This will be for the 52 weeks of the year, of your contract, then see the simulation:

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 x 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

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.

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 teambased 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 	\$572,240,960.21	\$268,930,757.53	<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	\$50,070,290.04	\$20,000,027.00	\$/1,330,316.24
– 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 XXXXXXXXX7408 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 #XXXXXX8409, 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 #XXXXXX2808 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 processers 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. XXXXXXY9078, 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>	No. Sales	Total Sales	Deposit Date	Deposit Amount
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 J DISTRICT OF MASSACHUSETTS

Exhibit 2

EXHIBIT A

UNITED STATES BANKRUPTCY COURT DISTRICT OF MASSACHUSETTS CENTRAL DIVISION

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

AFFIDAVIT OF STEPHEN B. DARR IN SUPPORT OF MOTION BY CHAPTER 11 TRUSTEE FOR ENTRY OF ORDER FINDING THAT DEBTORS ENGAGED IN PONZI AND PYRAMID SCHEME AND RELATED RELIEF

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").

Introduction

- 1. I am the duly appointed Chapter 11 trustee (the "<u>Trustee</u>") in these cases, having been appointed by order of the Court dated June 6, 2014.
- 2. I am a Managing Director with the Business Advisory Practice of Huron
 Consulting Group. I have more than 35 years of experience providing accounting, auditing and
 financial consulting services to business organizations many of which are experiencing
 significant financial and operating difficulties. I am a Certified Public Accountant in
 Massachusetts and New Hampshire, a Certified Insolvency and Restructuring Advisor and hold
 certifications in both Financial Forensics and Distressed Business Valuation, as well as other
 professional qualifications.

- 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 "<u>Petition Date</u>"), each of TelexFree, Inc., TelexFree, LLC, and TelexFree Financial, Inc. (collectively, the "<u>Debtors</u>") filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code ("<u>Bankruptcy Code</u>") with the United States Bankruptcy Court for the District of Nevada ("the <u>Nevada Bankruptcy Court</u>").
- 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"). 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 "<u>MLMP</u>", to sell the VoIP Packages.

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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 "<u>Triangular Transaction</u>"). 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".
- 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

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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 "<u>User Account</u>").
- 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* "1". 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* "1".
- 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 "1".
- 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;
- 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. 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. The \$5,000,000,000,000 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

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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.
- 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

Cases 6-D404090987Do D54-623 Hile of T001/2001/97/15 nterenter 00/2001/97/1651.97403:50 es describit 2 Affidavit of Affidavit of Stephen B. Darr in Support of Motion by Chapter 11 Trustee for Entry of Order Finding that

Debtors Engaged in Ponzi and Pyramid Scheme and Related Relief

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		
	\$ 359,792,242	\$ 1,308,049,021	

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

	Outstanding ADCentral	Outstanding ADCentral Family	ADCentral ADCentral Family Liability Liability		Total
Trailing Liability	Payments	Payments	(\$20 per week)	(\$100 per Week)	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

Source: Debtors' Participant database.

^{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.

BY CERTIFIED MAIL

September 9, 2016

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

Taxpayer:

TelexFree, LLC

EIN:

11

Forms:

1120X & 1120

elu & Dan

Tax Periods: December 31, 2012 & December 31, 2013

RECUIVED

Exhibit

SEF 13 2016

WESSTANCY

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

RECEIVED

SEP 2 1 70%

Stephen Dair Bankruptcy Trustee Telexfree, LLC
Tax Year Ended: December 31, 2013
EIN:

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.

Case 18-04091 Doc 54-3 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 3 9/9/2016 Letter Attaching Forms 1120 and 1120X for 2012 and 1120 for Page 3 of 52 REQUEST FOR PROMPT REFUND

Form 11 (Rev. Janua Department o	ry 2011) If the Treasury Tue Service	Am	ended U. Income	S. (Tax	Corporatio Return	n	▶.	OMB No. 1545-0132 or tax year ending 12/31/2012 nter month and year.)
Name	_	7.1.0					Employe	r identification number
Type Numb	EXFREE, ber, street, and	room or suite no. (If a P.O.	box, see instruction	16.1				
		STREET #1805	owd see mandede	(3.)				
City o	or town, state, a	and ZIP code	-				Telephon	e number (optional)
BOS	TON. MA				02110			()
		sed on original return (If san	ne as above, write "	Same	.")			
	EXFREE . enue Service Ce							
	al return was fil		JT					_
	Fil	l in applicable ite	ms and use	Par	t II on the back	to explain	any ch	nanges
Part I	Income a	nd Deductions (see	instructions)		(a) As originally reported or as previously adjusted	(b) Net ci increase or (explain in	decrease) -	(c) Correct amount
1 Total i	ncome	• • • • • • • • • • • • • • • • • • • •	• • • • • • • • • • • • • • • • • • • •	1	2,080,06	7. 13,32	7,613.	15,407,680.
2 Total d	leductions .			2	62,06	5. 16,58	5,558.	16,647,623.
3 Taxabl	e income. Su	btract line 2 from line 1		3	2,018,002	-3,25	7,945.	-1,239,943.
		<u> </u>		4	692,854	-69	2,854.	NONE
Payments	and Cred	its (see instructions)					
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b Estima	ted tax paym	ents		5b				
c Refund	applied for a	on Form 4466		5c,	ECEIVED			
d Subtra	ct line 5c from	n the sum of lines 5a an	d 5b	5d	120			
e Tax de	posited with	Form 7004		5e	SEP 2 1 7918			
Credit	from Form 24	139		5f	363 "	_ <u></u>		
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6 Tax de	posited or pa	id with (or after) the filin	g of the original	return	1	• • • • • • • •	. 6	692,854.
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11 Overpa	yment. Subtr	act line 4, column (c), fr	om line 9				▶ 11	692,854.
12 Enter th	e amount of	line 11 you want: Credit	ed to 20 E	stima	ted tax ▶	Refunded	▶ 12	692,854.
	schedules	raities of perjury, I declare that and statements, and to the b I taxpayer) is based on all info	est of my knowledge	and be	n and that I have examine lief, this amended return is	d this amended retu s true, correct, and c	m, including omplete. De	g accompanying eclaration of preparer
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or Paperwork	Reduction A	t Notice, see instructions.						7-988-1000 xm 1120X (Rev. 1-2011)
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Case 18-04091 Doc 54-3 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 3 9/9/2016 Letter Attaching Forms 1120 and 1120X for 2012 and 1120 for Page 4 of 52

Form 1120X (Rev. 1-2011)
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
Form 1120X (Rev. 1-2011)

Telexfree, LLC
Tax Year Ended: December 31, 2012
EIN:

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.

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	Form	1120	E	<u>ا</u> المحمد معامدها	J.S. Corp	pora	tion	ncon	ne T	ax Retur	n		OMB No. 1545-0123
	Depart	ment of the Treasury Revenue Service	Porca	lenuar year 20	JIZ or tax yea	r beginr 1120	ning _ ()_	U19.	<u> /201</u>	2 , ending ns is at www.irs	1273	1/2012	- 2012
	A Che			Name mer	EVEDER	7 T	iu its sep	arate m	Istructio	IS IS AT WWW.IP	s.gov/ta		
	1 a Con	solidated return sch Form 851)			LEXFREE							B Employe	r Identification number
	b Life.	nonlife solidated return	TYPE	Number stree	t, and room or s	EN D	ARR.	BANI	KRUP'	TCY TRUS	TEE		
	2 Pers	onal holding og	OR	ı					ruciions,			C Date inco	
	Pers	n Sch. PH)	PRINT	City or town si	JMMER S'	TREE	T #18	105_				07/1	19/2012
		(see instructions)										D Total asse	ets (see instructions)
•		dule M-3 ted · · · · 文	E Check if:	BUSTON	Initial return							\$	14,059,867.
-		Gross receipts				(2)	Final retu		Na	me change (4)	X Add	ess change	
					• • • • • • •			1a		<u>15,490,35</u>	0.	1	
		Returns and al	nowances.		• • • • • • •		[1b			_	4	
	,	Balance, Subtr	ract line 101	from line 1a							10		15,490,350.
	3	or Booms	SOUR PROTECTS	11 01111 1123-7()									82,670.
	1 -	Orosa pront. 3	donact line	2 from line 1c							1 3		15,407,680.
	4		record et, arr	u <i>(4)</i>							4		
Income	5										5		
Ě	6	Gross rents									6		
	1 1	Gross royaltes									7		
	8	Capital gain ne	t income (a	ittach Schedule	D (Form 1120	ו (כ					8	1	
	9	iver gain or (los	is) from Fo	rm 4797, Part I	II, line 17 (attac	ch Form	4797)				ه ا		
	10	Other income (see instruct	tions - atlach st	latement)						10	T .	
_	11	total income. A	Add lines 3	through 10							M 44		15,407,680.
_	12	Compensation	of officers (:	see instructions	s - altach Form	11125-E)				12		
deductions.)	13	Salaries and Ma	ages (less e	imployment crea	dits)						43		
늏	14	Repairs and ma	ilinteriance .								14		
륟	15	Dep 06012									1 15		
ě	16	rients									16	1	
S	17	Faxes and liceus	ses					SEE. S	STAT	EMENT 2	1 17		5,468,230.
limitations on	18	Interest									18		3,466,230.
Ĭa,	19	Charitable contr	ributions								140		
	20	Depreciation fro	m Form 45	62 not claime	d on Form 11:	25-A or	elsewhere	on retu	rn (etter	th Form 4562)	20	JEN/ED	
٥	21	Depletion									21	e'cA.	
ctions	22	Advertising									22		
흸	23	Pension, profit-s	haring, etc.,	plans							253.	13 2018	
mstro	24	Emblokee peuel	it programs								24	1.62 4.010	
틝	25	Domestic produc	ction activit	ies deduction	(attach Form 8	1903)				• • • • • • •	- 24	320	
Š	26	Other deduction	s (attach st	atement).	(च च	ייזי גייני	כ שוגים שים			11,179,393.
2	27	Total deductions	s. Add lines	12 through 26	 B			بو رسوسي	STATI	יייייייייייייייייייייייייייייייייייייי	1020		
힑	28	Taxable income	before net	operating loss	deduction and	d specia	d daducti	one Sub	atract line	a a a a a a a a a a a a	27	1	16,647,623.
욁	29 a	Net operating los	ss deduction	n (see instruction	ons)		29		Ju del III	NON			-1,239,943.
	0	obeciai dedrictio	ns (Schedu	la C, line 20)			120	ah I			7	STMT 4	±
1	c	Add lines 29a an	nd 29b , ,	<u></u>							29c		
	30	Taxable income.	Subtract lis	ne 29c from lir	ne 28 (see Inst	tructions)				3D		NONE
	31	Total tax (Schedi	ule J, Part I,	line 11)							31		-1,239,943.
ê	32	Total payments a	and refunda	ble credits (Sc	hedula J. Part	II, line 2	1) PAI	D WITE	H ORIG	INAL RETURN			600 051
틹	33	Estimated tax pe	nalty (see is	nstructions). C	heck if Form 2	220 is a	Hochari	50 FT		. []	32		692,854.
-	34	Amount owed. If	line 32 is s	smaller than th	a total of line	s 31 and	d 33 anta	ramoua	towns	•••	33		
	35 (Overpayment. If	line 32 is la	arger than the	total of lines :	31 and 3	33 onter o	mount o	nomeld	• • • • • • • •	34		
1	36 (inter amount from the	e 35 you want:	Credited to 201	3 estimated tax	x 🕨	AU, CHILER E	amount c	werpaid	Refunded B	35		692,854.
	- 1	Under nenalties of	nachen Land	are that their area	-l	and the second	companying	ichedules	end statem		of my kno	viedne and halist	692,854.
Sig	յո	and complete. Deci	- / prep	arer (ower than tax	(payer) is based on T	all informa	ation of which	preparer I	has any kn	owledge.	OI III NAIG		
fe	re	- Ju	see	, 5H	ier of	11/m	, 1	1	ددمه	Tex			S discuss this return
		Signature of officer			Dale	-y-54	· !	Title				-1	eparer shown below
		Print/Type pr	reparer's nam	e	Preparer's sign	alure			Date	/ /	T	1	ns)? X Yes No
ai	d	JOSEPH	MIDD	LETON	Just	21/1	Ela		9	19/16	Check	ployed	
re	pare	Firm's name			1	700	باحا حصره		1	1110	4		_
	on!			SOUTH S	TREET						Firm's Phone		
		- 1	BOS	TON MA	02111								1000
or	Paper	work Reduction A	ct Notice, sec	separate instr	uctions.						1 1	517-988	-1000 form 1120 (2012)
5A 511	10 3.0	30											Om 1120 (2012)

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TELEXFREE, LLC Form 1120 (2012) Page 2 Schedule C Dividends and Special Deductions (see instructions) (a) Dividends (c) Special deductions (b) % received (a) x (b) Dividends from less-than-20%-owned domestic corporations (other than debt-70 Dividends from 20%-or-more-owned domestic corporations (other than debt-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 6 Dividends on certain preferred stock of 20%-or-more-owned public utilities . . . 48 Dividends from less-than-20%-owned foreign corporations and certain FSCs . . 70 7 Dividends from 20%-or-more-owned foreign corporations and certain FSCs . . . 80 100 Total. Add lines 1 through 8. See instructions for limitation Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958 100 100 100 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12 Income from controlled foreign corporations under subpart F (attach Form(s) 5471), . . . Foreign dividend gross-up IC-DISC and former DISC dividends not included on lines 1, 2, or 3 Other dividends 17 Deduction for dividends paid on certain preferred stock of public utilities Total dividends. Add lines 1 through 17. Enter hero and on page 1, line 4 _ _ . Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter hore and on page 1, line 29b

Form 1120 (2012)

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	ELEXFREE, LLC	
	tm 1120 (2012)	0
	chedule J Tax Computation and Payment (see instructions)	Page :
<u> </u>	art 1 - 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)	1
	Atternative minimum tax (attach Form 4826)	
	Add thirts 2 and 5	
	5a Foreign tax credit (attach Form 1118).	
	b Credit from Form 8834, line 30 (attach Form 8834)	
	c General business credit (attach Form 3800)	
	d Credit for prior year minimum tax (attach Form 8827) 5d	
	e Bond credits from Form 8912	Í
	o liotal credits. Add lines 5a through 5a	
1		
- 4	P FBISONAL ROLDING COMPANY toy (office Schoolule DLI (Co	
9	2 Reconsure of investment and the fact to the contract of the	
	h Pacartura at I am	
	c Interest due under the look-back mothod - completed long-term contracts	
	/attach E 8007)	
	d Interest due under the look-back method - income forecast method (attach	
	Form 8866)	
	Form 8866)	
	e Alternative tax on qualifying shipping activities (attach Form 8902) 9e	
10	f Other (see instructions - attach statement). Total Add lines 9e through 9f	
	46	
Par	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31	
12	2011 gyarnaymant gradied to 2012	
13	12	6
14	raise estimated thy halytidility	
15	== 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1	
16		
17	Tan deposited tritte Folili 7004	
18		
19	40 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	
	The state of the s	
	Form 2439	
	Form 4136	
	Farm 8827, line 8c	
	Ciner (attach statement - see instructions) PAID WITH ORIGINAL PETUDA (484)	
20	Total credits. Add lines 18a through 19d	692,854.
	The state of the s	692,854.
,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	edule K Other Information (see instructions)	0351034.
1	Check accounting method: a Cash b X Accrual c Other (specify)	Yes No
2	and the mendalis and enter the	
а	Business activity DTRECT SALES	
b		
	THE PROPERTY OF SELECTION AND ADDRESS OF THE PROPERTY OF THE P	
3		
	If "Yes," enter name and EIN of the parent corporation	X
4	The same of the lax just .	
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust	nt tov-evered
	- Barrellor Civil directly 2078 Of DIOPS, Of OWN, directly of Indirectly 5000 or more of the 4-4-1	
	Part and a stock distributed to vote; if Tes, complete Part of Schodillo C (Form 1430) /	1 1
b	The state of the s	
	classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule	G).
		Form 1120 (2012)
		rum 1 t20 (2012)

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F	TELEXFREE, LLC					
	Schedule K Other Information continued (see instruction	98)				Page
	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 any foreign or domestic corporation not included on Form 851, Affiliations if "Yes," complete (i) through (iv) below.	the total voting power of all Schedule? For rules of cons	I classes of stock entitle tructive ownership, see I	d to vate of	Yes	No
_	(I) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	Owned		
_		(ii (iii))		St	ock	
-					1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	
	b Own directly an interest of 20% or more, or own, directly or indirectly, an in	nterest of 50% or more in a	ny foreign or domestic p	artnership	_	
_	(including an entity troated as a partnership) or in the beneficial interest of a if "Yes," complete (i) through (iv) below.	a trust? For rules of construc	tive ownership, see Instr	uctions.		_X
_	(I) Name of Entity	(II) Employer Identification Number (If any)	(iii) Country of Organization	(iv) Ma: Percentage Profit, Loss	3 Owned	d in sital
_						
-6	During this tax year, did the corporation pay dividends (other than sto					
8 9 10 11	excess of the corporation's current and accumulated earnings and profits? (S If "Yes," file Form 5452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on At any time during the tax year, did one foreign person own, directly or classes of the corporation's stock entitled to vote or (b) the total value of all of For rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned	in Form 851 for each subsidial indirectly, at least 25% of elasses of the corporation's starty PR of a 25% Foreign-Owned 5472 attached Phoriginal issue discount for Publicly Offered Original ear Ps starty	U.S. Corporation or a	Foreign hts.	x	
	the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules £, M-1, and distributions and the book value of property distributions (other than cash) ma	age 1) for the tax year and	d its total assets at the	end of of cash	<u> </u> ,	<u>x_</u>
15a	If "Yes," complete and attach Schedule UTP. Did the corporation make any payments in 2012 that would require it to file Fr	Position Statement (see instru orm(s) 1099?	tclions)?		\ \ \ \ \ \	X
16	During this tax year, did the corporation have an 80% or more change in pwn stock?	ownership, including a ch	anga due to redemplior	n of its		_ _ <_
18	of its assets in a taxable, non-taxable, or tax deferred transaction? Did the corporation receive assets in a section 351 transfer in which any	did the corporation dispose	of more than 65% (by	value)		<u>. </u>
	narket value of more than \$1 million?	************	· · · · · · · · · · · · · · ·	or tail	Х	12)

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TELEXFREE, LLC Form 1120 (2012) Page 5 Schedule L Balance Sheets per Books Beginning of tax year End of tax year Assets (a) (c) (d) Cash..... 1 1,207,048. 2 a Trade notes and accounts receivable . . Less allowance for bad debts Inventories........ U.S. government obligations Tax-exempt securities (see instructions) . Other current assets (attach schedule) . . STMT 5 NONE 12,849,344. Loans to shareholders Mortgage and real estate loans . . . Other investments (attach schedule) 10 a Buildings and other depreciable assets . . b Less accumulated depreciation . . . 11 a Depletable assets b Less accumulated depletion 12 Land (net of any amortization) . . . 13 a Intangible assets (amortizable only) . b Less accumulated amortization . . . 14 Other assets (attach schedule) . . . STMT 5 NONE 3,475 NONE 14,059,867 Liabilities and Shareholders' Equity Accounts payable Mortgages, notes, bonds payable in less than 1 year 18 Other current liabilities (altach schedule), STMT 5 NONE 5,470,901. Loans from shareholders 19 NONE 50. Mortgages, notes, bonds payable in 1 year Other liabilities (attach schedule) . . 21 STMT 5 NONE 9,829,080. Capital stock: a Preferred stock b Common stock Additional pald-in capital 23 24 Retained earnings - Appropriated (attach schedule) Retained carnings - Unappropriated . Adjustments to shareholders' equity (attach schedule) -1,240,164. Less cost of treasury stock 27 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 Net income (loss) per books. Income recarded on books this year not included on this return (itemize): -1,240,164.Federal income tax per books Tax-exempt interest \$ Excess of capital losses over capital gains Income subject to tax not recorded on books this year (itemize): Deductions on this return not charged against book income this year (itemize) Expenses recorded on books this year not deducted on this return (itemize): a Depreciation.....\$____ b Charitable contributions . \$ ____ b Charitable contributions . \$_____ c Travel and entertainment . \$_____ 221. Add lines 7 and 8 Add lines 1 through 5 . . -1,239,943. 10 Income (page 1, line 28) - line 6 less line 9 -1,239,943.Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L) Balance at beginning of year 2 Net income (loss) per books. -1,240,164b Stock 3 Other increases (itemize): c Property Other decreases (itemize): Add lines 5 and 6 Add lines 1. 2, and 3 . . . -1,240,164Balance at end of year (line 4 less line 7) -1,240,164. Form 1120 (2012)

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Information on Certain Persons Owning the

(FOFIT 1120) (Rev. December 2011)		Corporation's	Voting Stock	k		ÓMB No de se secono
Department of the Transury Internal Revenue Service		Attach to See instruction	Form 1120		- 1	OMB No. 1545-0123
Name		P Sae Histineth	ons on page Z.	Employer Ide	ntification n	umber /EIM
TELEXFREE, L	LC				Tractical popular	diliber (EIN)
C/O STEPHEN Part I Certain Ent	DARR, BANKRUP	TCY TRUSTEE				
columns (i)	ities Owning the Corp	poration's Voting St	tock. (Form 1120, S	Schedule K, Q	uestion 4	a). Complete
as a partner	ship), trust, or tax-exe	Mich in inferior func	esuc corporation, p	artnership (incl	uding an	y entity treated
manoutly, or	A DI HIOLE OF THE TOT	al voting power of a	It classes of the cor	% or more, or a	owns, dire	ectly or
instructions).	<u>. </u>			poration's stoc	w engited	to vote (see
(i) Name	of Entity	(ii) Employer identification	405 = 4 = 4	50.0	Countries	
		Number (if any)	(III) Type of Entit		Country of ganization	(v) Percentage Owne in Voting Stock
		 				
74						
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			1			
						
						<u> </u>
			ĺ			
						
				1		
Part II Certain Indivi	duals and Estates O	wning the Corporat	ion's Voting Stock	(Form 1120	Schodule	. K
Question 40).	Complete collimas ((I) ibiotiah (M) below	/ for any individual a	- A 46 4		41
111010, 01 04411	s, directly or indirectl to vote (see instruction	V. 30% of more of th	ne total voting powe	r of all classes	of the co	orporation's
Otook Chidded	to vote (see alistruction	ns).				
(i)	Name of Individual or Estate		(ii) Identifying Number (if any)	(Iti) Country of Citizenship (see instructions)	((v) F	Percentage Owned n Voling Stock
			-	mstructions)	 	- Tolling Older
CARLOS WANZELI	ER			US		50.00
JAMES MERRILL					T	
WATER HERMAN				<u>US</u>	·	20.00
CAROLOS COSTA			FOREIGNUS	BR		30.00
						50.00
					 -	
					1.3	

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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.

мате	TELEXFREE, LLC		
		Employer Identification number	
1	C/O STEPHEN DARR, BANKRUPTCY TRUSTEE	<u> </u>	
-	Inventory at beginning of year	1	
2	Furdiases	2	_
3	Cost or janor	3	-
4	Additional Sociion 203A costs (attach schedule)	4	_
5	VUICI COSIS LANGACO SCORGUIRO)		_
6	1988, Add lines 1 through 5	82,670	
7	Inventory at end of year	82,670	<u>) </u>
B		7	
0	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the		
9a	appropriate line of your tax return (see instructions)	82.670) .
~ **	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 the LIFO investors and trade goods.		
C	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970).	····· • • • • • • • • • • • • • • • • •	
ď	If the LIFO inventory method was used for this fax year, enter amount of closing inventory computed		
	under LIFO.	1	
e	If property is produced or acquired for core is do the sulf of the	96	_
	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions	s)? Yes X No	
1	Was there any change in determining quantities, cost, or valuations between opening and closing inventory?	If "Yes."	
	attach explanation	Yes X 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 J.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 283A 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.

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TELEXFREE, LLC

FORM 1120X - PART II - AMENDED RETURN CHANGES DETAIL

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

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 17 - TAX SUMMARY

TAXES (EXCLUDING INCOME TAXES) OTHER STATE AND LOCAL TAXES

TOTAL

4,624,801. 843,429.

5,468,230. ----------

LINE 17 - TAXES AND LICENSES

TAXES AND LICENSES STATE AND LOCAL INCOME TAXES

TOTAL

4,624,801. 843,429.

5,468,230.

2

FORM 1120, PAGE 1 DETAIL

INE 26 - SUMMARY OF TRAVEL, MEALS AN	ID ENTERTAINMENT	
GROSS MEALS AND ENTERTAINMENT LESS 50% LIMITATION TO SCH M-1		44:
NET MEALS & ENTERTAINMENT		22:
TOTAL		22:
NE 26 - OTHER DEDUCTIONS		
TRAVEL, MEALS AND ENTERTAINMENT AGENT COMISSION BANK CHARGES MERCHANT FEES REFUND CHARGEBACKS		221 1,175,236 20 61,824 10,393 23,107
TRAVEL, MEALS AND ENTERTAINMENT AGENT COMISSION BANK CHARGES MERCHANT FEES REFUND CHARGEBACKS CHARGED TWICE FRAUD NO DOCUMENTS SENT ADVERTISING CREDIT EXPENSE		1,175,236 20 61,824

3

FORM 1120, PAGE 1 DETAIL

TELEXFREE, LLC

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	CARRYOVER TO NEXT YEAR 1,239,943.
¥	CONVERTED
	AMOUNT USED
CTION	AVAILABLE 1,239,943.
LINE 29A - NON-SRLY NOL DEDUCTION	ORIGINAL NOL 1,239,943. 1,239,943.
LINE 29A - N	YEAR ENDING 12/31/2012 TOTAL

18

STATEMENT

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TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

OTHER CURRENT ASSETS	BEGINNING	ENDING
PROPERTY ON HOLD LOAN FROM TELEXFREE, INC LOAN TO YMPACTUS - CURRENT		278,374. 701,525. 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 ACCRUED STATE TAXES BRAZILLIAN HELP, INC	NONE NONE NONE	4,624,801. 843,429. 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.

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TELEXFREE, LLC

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FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

TERMINATION

TOTAL

82,670.

82,670.

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For	1	120		U.S. Corporation	n Inco	me Ta	x Retu	ırn			OMB No. 1545-0123
		ent of the Treasury	For calend	ar year 2012 or tax year beginn	ing 7/1	9/2012	. endina	12/	31/2012	2	2042
A		Revenue Service	► In	formation about Form 1120 and its se	parate instru	stions le at	ww.irs.go	v/form1	20		4014
		solidated return		Name					8 Emp	oloyer k	dentification number
		ach Form 851)		TELEXFREE, LLC							
Ь		/nonlife consoli- ad return					C Date	incorpo	rateu		
2		onal holding co. PRINT 4705 S. DURANGO DRIVE #100-J51									
		ttach Sch. PH) Cify or lown						7/19/2012 D Total assets (see instructions)			
3		sonal service corp.						- 1	- 10	40400	(see instructions)
		(10.00000)		LAS VEGAS	NV		89147		\$		2,017,831
4	D COL	edule M-3 attached	E Check if	117 223		(3) Nam	e change	(4)	Address	change	
		1a Gross receipts or sa b Returns and allower	iles		1 1 3 10	1		2,193	.079		
		Returns and allowar Balance, Subtract lire	nce			1	b	113	.012		
		2 Cost of goods sold (ne 10 from line	eta			181			1c	2,080,067
		3 Gross profit. Subtrar	allach Form 1	125-A)						2	
9		4 Dividends (Schedula	Cline 2 from U	ne 1c					. 192	3	2,080,067
псоте		5 Interest	EC, IIIIE 15).	• • • • • • • • • • • • • • • • • • • •						4	
Ĕ	1	6 Gross rents								5	
		7 Gross royalties					100	· 26 ·		6	
		8 Capital gain net inco	me (attach Sc	hedule D (Form 1120))				* * * .		7	
	1	9 Net gain or (loss) fro	m Form 4797.	Part II, line 17 (attach Form 4797					. ·	8	
	10	Other income (see In	structions—at	tach statement)				• • •		9	
	11	1 Total income. Add i	ines 3 through	10		× · · ·	107			10	2 222 227
-	13	2 Compensation of offi	cers (see instr	uctions—attach Form 1125-E)	95.1		CC4 40 .			11	2,080,067
uctions (See instructions for limitations on deductions.)	13	3 Salaries and wages ((less employm	ent credits)						13	
퓽	14	Repairs and mainten	ance.		470.0	000 00				14	
显	18	Bad debts	0.9			22. 62.			• •		
10	16	Rents						. 190	.	15	
	17	Taxes and licenses .					5.355		٠٠	16	
ř	18	Interest		E1616136131 V/V 1001					• •	17	
1	19	Charitable contribution	กร							18	
듣	20	Depreciation from Fo	rm 4562 not d	laimed on Form 1125-A or elsewh	ere on retu	m (attach E	*			19	
₽	21	Depletion	10		ere on rela	iii (attacii F	Jilli 4302)			20	
000	22	Advertising			3.5				. 90	21	
iict	23	Pension, profit-sharin	g, etc., plans			100	S		• • •	22	
늍	24	Employee benefit pro	grams			然為			120	23	
-	25	Domestic production	activities dedu	ction (attach Form 8903)	- 100	100 000		•	28	24	
ŝ	26	Other deductions (att	ach statement) · · · · · · · · · · · · · · · · · · ·					·	25	00.005
5	27	Total deductions. Ad	dd lines 12 thn	ough 26	10 100				`` .		62,065
cţio	28	Taxable income befor	e net operatin	g loss deduction and special dedu	ctions Sub	tract line 27	from line	11		27 28	62,065 2,018,002
	29	a Net operating loss de-	duction (see in	istructions).		292	, indiana		: i	20	2,018,002
Ded	1	 Special deductions (S 	ichedule C, lin	e 20)		79H			+	- 1	
		C Add lines 29a and 29t	b							29c	}
<u> 1</u>	30	raxable income. Sur	otrect line 29c	from line 26 (see instructions)						30	2,018,002
g a	31	Fotal tax (Schedule J	, Part I, line 11	1)					`	31	686,121
Tax, Refundable Credits, and Payments	32	Total payments and re	efundable cred	lits (Schodule J, Part II, line 21).	50 ⁷⁰⁷ 41					32	300,121
Page	33	Estimated tax penalty	(see instruction	ins). Check if Form 2220 is attach	ed				X	-	6.700
를	34	Amount owed, if line	32 is smaller i	than the total of lines 31 and 33, e	nter amoun	t owed				33	6,733
¥]	35	Overpayment, If line	32 is larger the	an the total of lines 31 and 33, ent	er amount	vernald.			. +	34 35	692,854
<u> </u>	36	Enter amount from line	e oo you want	Credited to 2013 estimated tax			. I m	la francia	.ar № [20	
	T	Under penalties of pedury, t d	eclare that I have a	vonined this return instead on a second		statements, an		d my know	ledge and	36 belief it i	E Irue covert
Sig	n l	and complete. Declaration of p	preparer (other tha	n taxpayer) is based on all information of which	h preparer has	any knowledge	in the state of	ratio	-anda mid	weiler, It	ज ।। बक्, कशां छस्,
Her		\ <u></u>		1	MAN.	AGING ME	MARCO				cuss this return with
	-	Signature of officer		Date	Title	TORING INE	MIDER		instruct	ons 12	Own below (see
		Print/Type preparer's	s name Pr	eparer's signature	111/10	- Bes			mon uçl		
Paid	ı	1				Date		c	heck (O w LF	TIN
Prep	-	BI Firm's name ▶ (CRAFT CIVI	DE H. CRAFT, CPAYPES, CFP		10	/22/2014		lf-employ		
Use			ORAFI FINA	NCIAL SOLUTIONS, LLC AIN STREET, SUITE B				Firm's			
JJE	VII		BOONVILLE	MIN STREET, SUITE B				_	no. 812		0477
For Pa	aper	work Reduction Act No		arate instructions	5	tate IN		ZIP co	de 476	01	

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	orm 1120 (2012) TELEXFREE, LLC			
	Schedule C Dividends and Special Deductions (see instructions)	(a) Dividends	(b) %	Page 2 (c) Special deductions (a) × (b)
	1 Dividends from less-than-20%-owned domestic corporations (other than			(4) - (5)
	debt-financed stock) 2 Dividends from 20%-or-more-owned domostic corporations (other than		70	
	debt-financed stock)		80	
			586	
,	3 Dividends on debt-financed stock of domestic and foreign corporations		Instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
	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	Th'o see	100	
9	Total. Add lines 1 through 8. Sec instructions for limitation		4.11	
10	Dividends from domestic corporations received by a small business investment	1	17.114 H. 17.1	
	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).		1	
15	Foreign dividend gross-up			100
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			1100
17	Other dividends	Name :		
18	Deduction for dividends paid on certain preferred stock of public utilities	2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4			1160
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29	Db		
				414

Form 1120 (2012)

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Fo	m 1120 (2012) TELEXFREE, LLC					
_	chedule J Tax Computation and Payment (see instructions)				-	Page 3
Pa	it in a computation		_		_	
1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))		_	1	_	
2	Income tax. Check if a qualified personal service corporation (see instructions)					
3	Alternative minimum tax (attach Form 4626)		2		688 <u>,12</u>	21
4	Add lines 2 and 3		3	 		
5 a			4_	<u> </u>	686,12	1
b	Credit from Form 8934, line 30 /offent Company			1		
c	GPD6/9/ http://dee.cradit/altach.Easts 2000		10.8			107
d	Credit for ottor year minimum tay tottock Company					
е	Bond credits from Form 8912		1	1		
6	Total credits. Add lines 5a through 5e					1
7	Total credits. Add lines 5a through 5e Subtract line 6 from line 4		6			
8	Subtract line 6 from line 4 Personal holding company tax (attach Schodula RH (Form 1120))		7		86,12	1
9a	Personal holding company tax (attach Schedule PH (Form 1120)) . Recapture of investment credit (attach Form 4255)	the see that is	В			
b	Recapility of low-income housing and it follows to the control of					
c	Interest due under the look-back method—completed long-term contracts (attach			1		1
_	Form 8697)		100	ł		
d	Interest due under the took-back method—income forecast method (attach Form			ł		1
-	8866)	l l	*	1		
e	Alternative tax on qualifying ablanta attribute.			1		
f	Alternative tax on qualifying shipping activities (attach Form 8902)			ļ		
10	Other (see instructions—attach statement)		i Nonee			
11	Total. Add lines 9a through 9f.		10			<u></u>
	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31. II-Payments and Refundable Credits		11	6	86,121	
12	January and Relatidable Cledits					
13	2011 overpayment credited to 2012		12			
14	2012 estimated tax payments .		13			
15	2012 refund applied for on Form 4466		14	(
16	Combine lines 12, 13, and 14		15			
17	Tax deposited with Form 7004	[16			
18	Withholding (see instructions) .	[17			
19	Total payments. Add lines 15, 16, and 17	[18			
	reduidable credits from:	. [5			
a	Form 2439					
b	Form 4136		22			
C	Form 8827, line 8c					
d	Other (attach statement—see instructions)		3.			
20 21	Total credits, Add lines 19a through 19d . Total payments and credits, Add lines 19 and 20 Setupber		20			
	20. Enter nere and on page 1, line 32		21			
	Other Information (see instructions)					
	Check accounting method: a Cash b X Accrual c Other (specify)				Yes	No
	See the instructions and enter the:				11111	-7.431
	Business activity code no. > 454390					1.
	- DITCOT GALES			******		- 1
	TOWNSON SOUNDAINED					
3	is the corporation a subsignary in an affiliated group of a parent-subsidiary controlled group?				1317	X
	If "Yes," enter name and EIN of the parent corporation ▶				alia:	19512
	**					
	The arm of the same year.					71.
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trus	t, or tax-exempt				
	organization own directly 20% of more, of own, directly or indirectly, 50% of more of the total voting and	was at all atasses at the	e			
•	comporations stock entitled to vote? if "Yes," complete Part I of Schedule G (Form 1120) (attach Schedi	ule G1			2.11	X
D (any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more at the	lotal station	14		12.	<u> </u>
	lasses of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120)	(attach Schedule G)			x	

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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. (i) Name of Corporation (ii) Employer Identification Number Id	At the end of the lax year, did the corporation:	s)			F	38ge 4
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 demoetic corporation not included on Form 851, Affiliations Schedule? For rules of constructive ownership, see instructions. (if "Yea," complete (i) through (iv) below. (ii) Name of Corporation 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 rested 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. (ii) Name of Entity (iii) Employer identification Number (iii) Country of Organization Percentage of Capital (iii)	At the end of the lax 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, Affailations Schedule? For rules of constructive ownership, see instructions. (i) Name of Corporation (ii) Name of Corporation (iii) Name of Exity (iii) Name of	Own directly 20% or more, or own, directly or indirectly 50% as a contract to				Yes	No
If Yes, complete (i) through (iii) below. (iii) Forestage Constructive ownership, see instructions. (iii) Country of Indepdoper (of any) (iv) Indepdoper (of any) (iii) Country of Organization (iv) Indepdoper (of any) (iii) Country of Organization (iv) Indepdoper (of any) (iii) Country of Organization (iv) Indepdoper (of any) (iv) Indepdoper (of any) (iv) Indepdoper (of any) (iv) Indepdoper (of any) (iii) Country of Organization (iv) Indepdoper (of any) (iv) Indepdoper (of any) (iii) Country of Organization (iv) Indepdoper (of any) (iv) Indepdoper	The state of the s	total valing newser of -H -I			17.	1
(ii) Name of Corporation (iii) Country of Incompanient (iii) Country of Incompanient (iiii) Country of None in Number (if any) (iii) Country of Organization (iv) Name of Ently (iii) Country of Organization (iv) Name of Ently (iii) Country of Organization (iv) Name of Ently (iii) Country of Organization (iii) Country of Organization (iii) Country of Organization (iv) Country of Organization (iii) Country of Organization	Sche	dule? For rules of constru	lasses of stock entitled to you	te of any		
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any fereign 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 (iii) below. (ii) Name of Entity (iii) Name of Entity (iii) Country of Organization Prediction Number (if any) (iii) Country of Organization pay dividends (other than stock dividends and distributions in exchange for stock) in excesses of the corporation's current and accumulated earnings and profits? (Bee sections 301 and 316.). If "Yes," file Form 6452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiery. A lary 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 vatue of all classes of the corporation's stock and the organization and organization of the corporation and the corporatio	If "Yes," complete (i) through (iv) below.		eave ownerouth, see matruct	ions,	Bi.	X
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,	(I) Name of Corporation		(iii) Country of	(iv) Pe	rcentag)ė
If "Yes," complete (i) through (iv) below. (ii) Employer total field in the composition of the compositi			Incorporation			J.C.
If "Yes," complete (i) through (iv) below. (ii) Rame of Entity (iii) Employer (iii) Country of Organization (iv) Maximum Percentage Owned in profit, Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. (iv) Maximum Percentage Owned Percentage Owned Iv) (iv) Percentage Owned Own		1				
If "Yes," complete (i) through (iv) below. (ii) Rame of Entity (iii) Employer (iii) Country of Organization (iv) Maximum Percentage Owned in profit, Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. (iv) Maximum Percentage Owned Percentage Owned Iv) (iv) Percentage Owned Own		 -		├		
If "Yes," complete (i) through (iv) below. (ii) Rame of Entity (iii) Employer (iii) Country of Organization (iv) Maximum Percentage Owned in profit, Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. (iv) Maximum Percentage Owned Percentage Owned Iv) (iv) Percentage Owned Own						
If "Yes," complete (i) through (iv) below. (ii) Rame of Entity (iii) Employer (iii) Country of Organization (iv) Maximum Percentage Owned in profit, Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. (iv) Maximum Percentage Owned Percentage Owned Iv) (iv) Percentage Owned Own				 		
If "Yes," complete (i) through (iv) below. (ii) Rame of Entity (iii) Employer (iii) Country of Organization (iv) Maximum Percentage Owned in profit, Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iii) Country of Organization Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. Loss, or Capita (iv) Maximum Percentage Owned in profit. (iv) Maximum Percentage Owned Percentage Owned Iv) (iv) Percentage Owned Own	Own directly an interest of 20% or more, or own, directly or indirectly, an inter-	that of EON		<u> </u>		
(ii) Name of Entity (iii) Country of Organization Percentage Owned in Profit, Loss, or Capital Percentage Owned in Profit, Loss, or Capital Profi	the penetrolal interest of a	irest of 50% or more in an	y foreign or domestic partner	ship		
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 subsidiery. 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 entitled to vote or (b) the total value of all classes of the corporation as so as escention 318. If "Yes," enter: (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 > Check this box if the corporation issued publicly offered debt instruments with original issue discount. If checked, the corporation has an NOL for the tax year of the tax year (if 100 or fewer) > 3 Enter the amount of tax-exempt interest received or accrued during the tax year \$ Enter the corporation has an NOL for the tax year and is electing to forego the carryback period, check here.	If "Yes," complete (i) through (iv) below.		cave ownership, see instruct	ions.	311	X
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tax year less than \$250,000?	Enter the available NOL carryover from prior tax years (do not reduce it by any	deduction on line 29a.)	\$			
If "Yes" the corporation is not required to complete Debutch.					H.	
	ll 183. IDC COIDDIDIDI IS DOLLOCULTON IN ARMADATA Cabadulas L. 14.4			-		<u><</u>
and the book value of property distributions (omer than cash) made during the tax year.	made and the back value of property distributions (other than cash) made	le during the tax year.	. c			
Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)? X		osition Statement (see ins	tructions)?			Č
The state of the s	The state of the s			17.5	-	Ť.
b If "Yes," did or will the corporation file required Forms 1089?	f "Yes," did or will the corporation file required Forms 1099?	m(s) 10997			X	_
Soluting this tax year, old the comporation have an 80% of more change in ownership, including a phase due to section 4.	Suring this lax year, did the comporation have an 80% or more change in owner	eble lectudine a shance -	lace to another at the		<u> </u>	_
Officiology, and a second of the second of t	mil albert,				Ι,	,
The state of the s	will a second of the tax year, but belone the lilling of this fathm did the	corporation diamena -1	U AEN O	2.00	- ^	<u>-</u>
	in a assets in a taxable, non-taxable, or tax deferred transaction?			35.31	x	<u></u>
of its assets in a taxable, non-taxable, or tax deferred transaction? Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair	narket value of more than \$1 million?	transferred assets had a fa	air market basis or fair		T	_

Case 18-04091 Doc 54-3 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 3 9/9/2016 Letter Attaching Forms 1120 and 1120X for 2012 and 1120 for Page 23 of 52

3	chedule L Balance Sheets per Books		Beginn	ing of ta	x year	End of ta	Page ax year
	Assets		(a)		(b)	(c)	(d)
1	Cash		111	eta si		11,000	1,034,45
2a	Trade notes and accounts receivable	100000		75	133.00	41140000	1,034,43
þ	Less allowance for bad debts	()	h (1),7-1524		- distan
3	Inventories	90	1			11 70 1114	
4	U.S. government obligations		1,615				
5	Tax-exempt securities (see instructions)						
6	Other current assets (attach statement)		11				600.07
7	Loans to shareholders			1			983,37
8	Mortgage and real estate loans	(a) le-				- 111	
8	Other investments (attach statement)		622.3			17.41	
10a	Buildings and other depreciable assets	(B)	19.1	300	535.0.87	1 1 1000000	
b	Less accumulated depreciation	. (7	7		1.1.440
11a	Depletable assets			43300	Y		
ь	Less accumulated depletion	(1 1000000			1
12	Land (net of any amortization)	+(2)	5936	1		25,55140	
13a	Intangible assets (amortizable only)	1000	- 124		1 300000		4117
ь	Less accumulated amortization	1		inits	4 44 414 47 4		The state of the s
14	Other assets (altach statement).	1	V. 144	-4)	1 0000000000000000000000000000000000000
15	Total assets		100			1,122	
	Liabilities and Shareholders' Equity	\dashv	100	0.00	and the second	1211	2,017,831
16	Accounts payable	- 50	111	1,000			77.0
17	Mortgages, notes, bonds payable in less than 1 year.			31			
18	Other current liabilities (attach statement).		111			7 1117	
19	Longo from about the language statement).			3.5		11111	
20	Loans from shareholders .		1000			1111	50
21	Mortgages, notes, bonds payable in 1 year or more						
22	Other liabilities (attach statement)	100	1:55		1,000		
22	Capital stock: a Preferred stock						
	b Common stock				100000000000000000000000000000000000000		
23	Additional paid-in capital		11.13				
24	Retained earnings—Appropriated (attach statement).	1					
:5	Retained earnings—Unappropriated	0h	74 74 1	1		11111	2,017,781
6	Adjustments to shareholders' equity (attach statement).	L.	-				2,011,101
7	Less cost of treasury stock			().	1	
	Total liabilities and shareholders' equity						2,017,831
Sch	edule M-1 Reconciliation of Income (Lo	ss) per	Books W	ith Inc	ome per Retu	rn	
	Note: Schedule M-3 required instead of	of Schedu	le M-1 If tota	l assets	are \$10 million or r	nore—see instructions	
1	Net income (loss) per books	2	.017,781	7 Inco	me recorded on bo	rake this year not	100000000000000000000000000000000000000
2	Federal income tax per books				ided on this return	(Nomino):	200101
3	Excess of capital losses over capital gains			Tay	exempt interest		121111
4	ncome subject to tax not recorded on books	1.7	1,111	101	evalubt litterest	\$	117711
	his year (itemize):	8	11.			***************************************	
		CHOC 81	20,000	Dode	uctions on this retu		4 41 11111
5	xpenses recorded on books this year not		92.8	anal	nst book income th	in not charged	4141444
	feducted on this return (Itemize):		1122	a Depr	recision	is year (nemize):	
a	Depreciation	1.4	-116	b Charit	table contributions	5	
ь	Charitable contributions \$		-11.11			5	1
	ravel and entertainment \$ 221	57					
L.	***************************************		- 173			***************************************	
ŭ.		9.6	221 9		lees 7 and 2	***************************************	
17		4	018,002 10		ines 7 and 8.		
17				incon	ne (page 1, line 28)—line 6 less line 9	2,018,002
- -	kdd lines 1 through 5	2,0	010,002110			Pahadul- I I	
Z	add lines 1 through 5	2,1 etained	1 Earning	s per E	300ks (Line 25	, Schedule L)	
che	edule M-2 Analysis of Unappropriated R	etained	Earning 6	s per E Distri	butions: a Cas	sh 🦟	
i A	edule M-2 Analysis of Unappropriated R salance at beginning of year let income (loss) per books	etained	1 Earning	s per E Olstri	butions: a Cas	sh	
iche	add lines 1 through 5 dule M-2 Analysis of Unappropriated R alance at beginning of year let income (loss) per books ther increases (itemize):	etained	Earning 6	Olstri	butions: a Cas b Sto- c Pro	sh sk	
iche	add lines 1 through 5 dule M-2 Analysis of Unappropriated R lalance at beginning of year let income (loss) per books ther increases (iternize);	etained	Earning 6	Olstri	butions: a Cas b Sto	sh sk	
in E	add lines 1 through 5 dule M-2 Analysis of Unappropriated R alance at beginning of year let income (loss) per books ther increases (itemize):	etained	Earning 6	Other	butions: a Cas b Sto- c Pro r decreases (itemiz	sh	
School E	add lines 1 through 5 dule M-2 Analysis of Unappropriated R lalance at beginning of year let income (loss) per books ther increases (itemize):	etained	Earning 6	Other Add fi	butions: a Cas b Sto c Pro r decreases (itemiz	sh	
School E	add lines 1 through 5 dule M-2 Analysis of Unappropriated R salance at beginning of year let income (loss) per books ther increases (ilemize):	etained 2,0	Earning 6	Other Add fi	butions: a Cas b Sto- c Pro r decreases (itemiz	sh	2,017,781

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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.

OMB No.1545-0123

Name			See instruc	<u>tions on pa</u>	qe 2.			
1400116						Emple	yer identifical	on number (EIN)
TELEXFRE								
Part I	Certain Entitie:	S Owning the Corp	oration's	Voting S	lock. (F	orm 1120, Sc	nedule K.	Question 4a)
	Combiers colfit	ins (i) through (v) be	elow for an	iv foreian.	or dom	estic comorat	ion sadaa	enhie !!lli
	arry critical deale	u as a partnership).	. Irust. or ta	ax-exemn	t organ	ization that ou	والمستحدثات حجان	2007
	stock entitled to	r indirectly, 50% or r vote (see instructio	note of fue	e total vot	ng pov	er of all class	es of the c	orporation's
61	Name of Entity	(ii) Employer Identification	-		T		T	
		Number (if any)	(iii) Typ	e of Entrly	(iv) Co	untry of Organization	(v) Percenta	ige Owned in Voting Stock
			1					12
					-			<u></u>
							1	
						<u> </u>		
							<u> </u>	
			1					
							 	
					-		 	
							ĺ	
Part II	Certain Individu	als and Estates Ou	traina the	Comon	1!- 1	<u> </u>		
	Question 4b), Co	als and Estates Ov mplete columns (i) t	brough fiv	helow fo	ion's V	oting Stock,	(Form 112	0, Schedule K,
	or more, or owns,	, airecuy or inairectiv	v. 50% or i	more of th	e total	voting nower	nate ination of all classe	was directly 20%
	corporation's stoc	k entitled to vote (s	ee instruct	ions).				-
	(i) Name of Ind	lividual or Eslate		(ii) Iden Number	lifying	(iii) Cou Clitzenst		(iv) Percentage Owned
				Manipel	(н апу)	instruc	tions)	in Voting Stock
CARLOS WA	NZELER					United States		50.000%
IAMES MED	DIL.							50.00078
IAMES MER	KILL					United States		20.000%
ARLOS CO	STA	_		FOREIG	SN US	Brazil		20.0000
						J. G. G.		30.000%
]		
			- 1			ļ.		

3 9/9/2016 Letter Attaching Forms 1120 and 1120X for 2012 and 1120 for Page 25 of 52

<u>Line 26</u>	(1120) - Other	Deductions
4 Tenual	0.0-1	

1	Travel, Meals and Entertainment
	b Meals and entertainment, subject to 50% limit
	c Meals and entertainment, subject to 80% limit (DOT)
	4 Loss disalitiwad
	a Subtract line of from lines blandic
2	Bank charges 1e 221 Merchant Fees 2 20
3	Merchant Fees 2 20
4	Total other deductions
5	Total deductions less expenses for offsetting credits
	5 62,065

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

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

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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. 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. Annualized Prior Three Tax Year **Gross Receipts** Year Average 2012 2.080,067 Yes OF 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

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Schedule L (1120) - Balance Sheets per Books

3	chedule L (1120) - Balance Sheets per Books		
1	Assets	Beginning	Ending
2			1,034,458
2	- made notes and accounts receivable		1,551,400
2	36		
3	IDVENTORIES =		
4	V.O. GUVERNMENT COMPANIONS		
5	Tax-exempt securities		
6	Other current assets		
7	Loans to shareholders		983,374
8	Wortgage and real distate loans .		
9	Other investments		
10	Buildings and other depreciable assets		
10	Less accumulated depreciation		
100	Net buildings and other depreciable assets		
114	Depletable assets		
11	Less accumulated depletion		
110	Net depletable assets		
12	Land (not of only americation)		
13a	Intangible assets (amortizable only)		
13b	Less accumulated amortization		
130	Net intangible assets		
14	Other assets		
15	Other assets		
	Total assets		2,017,832
16	Liabilities and Capital		
17	Accounts payable		
18	Mortgages, notes, bonds payable in less than 1 year		
	Other current liabilities		
19	Loans from shareholders		50
20	Mortgages, notes, bonds payable in 1 year or more		
21	Other liabilities		
22a	Capital stock (preferred)		
22b	Capital stock (common)		
22c	Net Capital Stock		
23	Additional paid-in capital		
24	Retained earnings - appropriated		
25	Retained earnings - unappropriated		2047304
26	Adjustments to shareholders' equity		2,017,781
27	Less cost of treasury stock		
28	Total liabilities and shareholders' equity		0.048.05
			2,017,831

REQUEST FOR PROMPT REFUND

	Fon	_1120			J.S. Cor	pora	tion	nco	me	Tax Return	1	OMB No. 1545-0	123
	Dep	Ariment of the Treasury	Forca	ienoar year 2	ขาง or tax ye	ar beginr	ung			, ending :tions is at www.irs.		2M12	
		heck If:		P HISOT HIALIO	EXFREE, 1	1120 90	0 118 50	parate :	Instruc	tions is at www.irs.	gov/for		_
	180	onsolidated return										B Employer Identification numb	10 F
	ÞU	fe/nontife	TYPE	Number, stre	STEPHEN et. and room or s	DARK,	a P.O. bo	RUPT	CY T	RUSTEE		C Date incorporated	
	2 Pt	Number, street, and room or suite no. If a P.O. box, see instructions. Personal holding co. stack Sch. PH). Personal service OR 125 SUMMER STREET #1805 City or town, state, or province, country and ZIP code or foreign postal code											
	3 Pe											D Total assets (see instructions)	_
					_MA 0211				o-C-gri p				
	att	traction 4-3	E Check If:	4	Initial return		Final rel	rum (3)	vi li	Name change (4)	Add	\$ 75,922,302	,
	_	1a Gross receipts				17		1a	/		Addre	ess change	
	-]	b Returns and all	owances		* * * * * * *			1b		865,893,525 2,092,676	77.037		
		c Balance, Subtr	act line 1b	from line 1a				10.1		2,092,676	1c	T	
	1 :	2 Cost of goods :	sold (attach	Form 1125-A	• · · · · · · · · · · · · · · · · · · ·		• • • •	• • • •	• • • •	• • • • • • • • • • • • • • • • • • • •	2	863,800,849	_
	- [:	3 Gross profit. Si	ubtract line	2 from line 1c				• • • •			3	2,263,477	
	2 4	4 Dividends (Sch	edule C, line	e 19)				• • • •		• • • • • • • • • • • • • • • • • • • •	4	861,537,372	+
	ncome	5 Interest									5	2 500	_
	튀	6 Gross rents					• • • •	• • • •			6	2,732	÷
	7	Gross royallies									7		_
	8	Capital gain net	income (a	Hach Scheduk	D (Form 112	0))		• • • •	• • •		8		_
	9	Net gain or (los	s) from Fo	rm 4797, Part	II, line 17 (atta	ch Form	4797) .				9		
	10	Other income (s	see instruct	ions - attach s	talement)						10		_
	11	l Total Income. A	dd lines 3 i	through 10 🚬							44	861,540,104.	-
	_ 12	2 Compensation of	of officers (s	see instruction:	s - altach Forn	n 1125-E	1-17				12	001,540,104.	_
	13 14 15 15	a primite elli Ma	MAS HOSP E	HIDDOVIHBIA CIE	CHIST						13	3,507.	-
,	읪 14	Repairs and mai	intenance .		Kr	S	46			• • • • • • • • • •	14		-
	릹 15	Bad debts				ev 2.	16.16			• • • • • • • • • •	15	186,344,898.	-
											16	10,504.	_
	5 17	Taxes and licens	es					SEE	STA	TEMENT 1	17	26,356.	_
	18	Interest									18	14,127.	
	19	Charitable contri	ibutions					SEE.	STA	TEMENT 2	19	NONE	_
Con Can Indiana	20	Depreciation from	m Form 45	62 not claime	d on Form 11	25-A or (elsewher	e on ret	lurn (ati	tach Form 4562)	20	86,543.	_
-	21	Depletion									21		_
į	22	Advertising									22	16,569.	_
1	23	Pension, profit-si	haring, etc.,	plans							23	20,303.	-
į	24	Employee benefi	l programs								24		_
3	25	Domestic produc	tion activiti	es deduction	(attach Form t	3903)					25		-
ŭ	26	Other deductions	: (allach sta	element)				SEE.	STA:	TEMENT 3	26	2,777,023,435.	-
Š	27	Total deductions	. Add lines	12 through 20	5						27	2,963,526,039.	_
ŧ	28	Taxable income b	efore nel c	perating loss	deduction an	d special	deducti	ons. Su	ubtract	line 27 from line 11	28	-2,101,985,935.	
pa	424	p	s deduction	1 (see instruction	ons)		2	9a		<u> </u>	.01		-
0	י ו	Special deduction					2	ь			S 15		
-		Add lines 29a and						<u></u>			29c		
Ī	30	Taxable income.	Subtract lin	e 29c from lit	ne 28 (see ins	tructions)					30	-2,101,985,935.	•
4	31	Total tax (Schedu	ie J, Part I,	line 11)						• • • • • • • • •	31	NONE	
28	32	Total payments at								· · · · · <u>· · </u> .	32	15,858,111,	
TEE, Hefundalike	33	Estimated tax per								▶□	33		
E,	34	Amount owed. If	line 32 is s	mailer than th	ne total of line	s 31 and	33, ente	ramou	nt owed	d	34		
ļ.	35 36	Overpayment, if is	ine 32 is la	rger than the	total of lines .	31 and 3	3, enler i	amount.	overpa	id	35	15,858,111.	
_	Ţ	Enter amount from line Under penalties of p	eriury. I decle	redited to 201	4 estimated (a)	skudina nas				Refunded -	36	15,858,111.	
Si	gn	and complete, Decia	ration of prep	ater (other than tax	cpayer) is based on	all Informat	tion of which) biebares acueonies	s and star rhas any	iements, and to the best of knowledge.	my knowle	15,858,111.	
ы	ere	1to	ella.	Da.	. 0	6/10						May the RS discuss this return	
470		Signature of officer			Daie	116	!	Title	No	vice		with the preparer shown below	
-		Print/Type pre	parer's name		Preparer's sign	afture			Date			(see instructions)? Y Yes No	
Þ	id	JOSEPH N			(hal	M	41	_	٦٣۶	19/11	Check _	PTIN	
_	epar		► KPMG		and the		-		-	1/10	self-emp		
	e Or			OUTH STR	RET						Firm's El Phone no		
				ON, MA D									
Fo	Pape	rwork Reduction Act	Notice, see	separate instru	etions.			*			617-	988-1000	
JSA 3C	110 4.	.000										Form 1120 (2013)	

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TELEXFREE, LLC Form 1120 (2013) Page 2 Schedule C Dividends and Special Deductions (see instructions) (a) Dividends (c) Special deductions (b) % received (a) x (b) Dividends from less-than-20%-owned domestic corporations (other than debt-70 2 Dividends from 20%-or-more-owned domestic corporations (other than debt-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 Dividends on certain preferred stock of 20%-or-more-owned public utilities... 48 Dividends from less-than-20%-owned foreign corporations and certain FSCs . . Dividends from 20%-or-more-owned foreign corporations and certain FSCs . . . 80 Total. Add lines 1 through 8. See instructions for limitation Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958 100 100 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12 Income from controlled foreign corporations under subpart F (attach Form(s) 5471), . . . Foreign dividend gross-up IC-DISC and former DISC dividends not included on lines 1, 2, or 3 Other dividends Deduction for dividends paid on certain proferred stock of public utilities 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)

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TE	LEXFREE, LLC			
				Page
	hedule J Tax Computation and Payment (see instructions rt I-Tax Computation)		
:	attach Schedule O	(Form 1120))	İ	
:	The state of the s	▶□	2	
	The state of the s		3	NONE
			4	NONE
•	- the second country of the first of the second country of the sec	5a	_	
	The first and a fore storing and a second an	5b	4	
	C General business credit (attach Form 3800)	5c		
	Friel Jose Hilliam tax (ditacit Folim 0051)	_5d		
6	e Bond credits from Form 8912	5e	_	
7	Total credits. Add lines 5a through 5a		6	
B	Subtract line 6 from line 4		7	NONE
_	Personal holding company tax (atlach Schedule PH (Form 1120))		В	
4	Recepture of investment credit (attach Form 4255)	9a		
	Recapture of low-income housing credit (attach Form 8611)	9b	_[1
	: Interest due under the look-back method - completed long-term contracts	1		
	(attach Form 8697)	9c	1]
'	f Interest due under the look-back method - income forecast method (attach			
	Form 8866)	9d	1	[
1	Alternative tax on qualifying shipping activities (attach Form 8902).	9e		i
40	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
	II-Payments and Refundable Credits			
12 13	2012 overpayment credited to 2013		12	
14	2013 estimated tax payments		13	
15	2013 refund applied for on Form 4466		14	()
16	Combine lines 12, 13, and 14	• • • • • • • • • • • • •	15	
17	Tax deposited with Form 7004		16	15,858,111.
18	Withholding (see instructions)		17	9930
19	Total payments, Add lines 15, 16, and 17		18	15,858,111.
		1	ĺĺ	
et.	Form 2439	19a	'	
		9b	- 1	
ي د	Form 8827, line 8c.	19c		
20 a	Other (attach statement - see instructions).	19d		
24	Total credits. Add lines 19a through 19d		20	
21 Sch	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, lines addle K. Other Information (see instructions)	32	21	15,858,111.
	The state of the s			
1	Check accounting method; a Cash b X Accrual c	Other (specify)		Yes No
2	See the instructions and enter the:			
a	Business activity code no. ► 454390			
Ь	Business activityDIRECT_SALES			
_	LIOGUET DE SEIVICE - CONTINUE TOMS			
3	The corporation a adoptically in an armiated group or a parent-subsidiary controll	ad group?		[] •
	If "Yes," enter name and EIN of the parent corporation ▶	*		
4	At the end of the tax year.			TODATO SE
a	Did any foreign or domestic corporation, partnership (including any enti-	ty treated as a partnershi	p), tru	ist, or tax-exempt
	organization own directly 20% or more, or own, directly or indirectly, 50% or	more of the total votice se-		f all alassau _t +t
	corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1	120) (attech Schedule G)		[]
u	or estate own directly 20% or more, or own, directly or ind	trectly, 50% or more of the	total v	toting newer of all
	classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Scho	edule G (Form 1120) (attach 5	chedu	le G) X
				Form 1120 (2013)

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TELEXFREE, LLC					
Schedule K Other Information continued (see instru	ctions)	 -			Page
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 mo	re of the total voting power of a	Il classes of etack			
any foreign or domestic corporation not included on Form 851, Affilia if "Yes," complete (i) through (iv) below.	ations Schedule? For rules of con	structive ownership, see	ed to vote of instructions.	X.	
(I) Name of Corporation	(fi) Employer Identification Number (if any)	(III) Country of Incorporation	(Iv) Pen Owned it	n Vetin	
TELEXFREE FINANCIAL, INC		US	100	.00	
h Court discount of the court o					
b Own directly an interest of 20% or more, or own, directly or indirectly (including an entity treated as a partnership) or in the beneficial interests." (complete (i) through (iv) below.	r. an interest of 50% or more in a ast of a trust? For rules of constru	ny foreign or domestic pactive ownership, see ins	partnership structions.		х
(I) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Ma Percentage Prolit, Loss,	Owner	d in
			<u> </u>		_
6 During this tax year, did the corporation pay dividends (other the	an stock dividends and distrib	utions in such as a			
excess of the corporation's current and accumulated earnings and pro-	fits? (See sections 301 and 316.)) nous in excusude tot	stock) in		Х
1101 1101 1101 1101 1101 1101 1101 1	5.			_	
If this is a consolidated return, answer here for the parent corporation	алd on Form 851 for each subsid	diary.			
7 At any time during the tax year, did one foreign person own, direct classes of the corporation's stock entitled to vote or (b) the total value For rules of attribution, see section 318. If "Yes," onter:	tly or indirectly, at least 25% of of all classes of the corporation's	(a) the total voting postock?	wer of all	x	
(i) Percentage owned ► 30.00 and (ii) Owner's	s country - BR	2020			
(c) the corporation may have to file Form 5472, Information Re	Rithm of a 25% Foreign-Owned	IIIC Composition			
8 Check this box if the corporation issued publicly offered debt instrument	Forms 5472 attached				
if checked, the corporation may have to file Form 8281, Information R	leturn for Publicly Offered Orleins	d Icerio Dienavas Instrum			
9 Enter the amount of tax-exempt interest received or accrued during the 10 Enter the number of shareholders at the end of the tax year (if 100 or for	tax year > \$				
If the corporation has an NOL for the tax year and is electing to forego. If the corporation is filing a consolidated return, the statement requor the election will not be valid.	ine carryback period, check hard				
12 Enter the available NOL carryover from prior tax years (do not reduce it	by any deduction on tipe 20 a \ >				
13 Are the corporation's total receipts (page 1, line 1s, plus lines 4 to the tax year less than \$250,000?,	trough 10) for the tay year an	ef its total assets -t th	1		-
If "Yes," the corporation is not required to complete Schedules L. M-1 and the book value of property distributions (other than cash) made due	none by a language of the state of			+	х_
If "Yes," complete and attach Schedule UTP.	n Tax Position Statement (see inst	tructions)?		_	<u>X</u> _
15a Did the corporation make any payments in 2013 that would require it to	o file Form(s) 1099?		ل	ĸ L	_
 b If "Yes," did or will the corporation file required Forms 1099? Ouring this tax year, did the corporation have an 80% or more chan own stock? 	ige in ownership, including a cl	itemples of our going	on of 11-	<u> </u>	-
own stock? During or subsequent to this tax year, but before the filing of this re	turn, did the corporation disper-	a of more than again it		+	ζ
or its assets in a taxable, non-taxable, or tax deterred transaction?			- 1		_
Did the corporation receive assets in a section 351 transfer in which market value of more than \$1 million?	n any of the terms of a section	h			,
			Form 112		13)

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	TELEXFREE, LLC m 1120 (2013)						
S	chedule L Balance Sheets per Books	Beginning	of tax	year	Er.	od of tax y	rayc
	Assets	(a)	T	(b)	(c)	TO DI LEX	
1	Cash			1,207,048.	1 19		(d)
	Trade notes and accounts receivable				1		37,577,512.
ŧ	Less allowance for bad debts	(]		($\overline{}$	
3	Inventories					-1	
4	U.S. government obligations	1			1	<u> </u>	
5	Tax-exempt securities (see instructions)				1	<u> </u>	
6	Other current assets (attach statement).	STMT 4	Г	12,849,344.	1		10 700 005
7	Loans to shareholdors						10,792,095.
8	Mortgage and real estate loans				ĺ		
9	Other investments (attach statement)	STMT 4		NONE		├	27 260 270
10 a	Sulidings and other depreciable assets	NONE			86,54:	,	27,368,370.
Ь	Less accumulated depreciation	(NONE)		NONE			76 067
11 a	Depletable assets				3,37.	- 1	76,967.
ь	Less accumulated depletion	()			(
	Land (net of any amortization)				·	-+-	
	Intangible assets (amortizable only)						
	Less accumulated amortization	(i	(
	Other assets (attach stalement)	STMT 4		3,475.			105 000
15	Total essets			14,059,867.			107,368.
	Liabilities and Shareholders' Equity	ľ		2.70037007.		<u> </u>	75,922,302.
16 17	Accounts payable Mortgages, notes, bonds payable in less than 1 year					-	
18	Other current liabilities (attach statement).	STMT 4		5,470,901.		-	36 076 740
19 20	Loans from shareholders Mortgages, notes, bonds payable in 1 year or more			50.			36,836,348. 50.
21	Other liabilities (attach stalement).	STMT 5		9,829,080.			
	Capital stock: a Preferred stock	1		3,023,080.		2	,161,474,220.
	b Common stock			<u> </u>		\dashv	
23 /	Additional paid-in capital						
	Retained earnings - Appropriated (ettach statement)	İ					
25 f	Retained earnings - Unappropriated Adjustments to shareholders' equity attach statement)	-		-1,240,164.		-2	,122,388,316.
27 L	ess cost of treasury stock	Ī		,		7	
28 7	otal liabilities and shareholders' equity ,			14,059.867.		<u> </u>	75,922,302.
Sch	edule M-1 Reconciliation of	Income (Loss) per l	Book	s With Income	per Return		13,322,302.
	Note: Schedule M-3 re	equired instead of Schedula	M-1 if 1	otal assets are \$10 mil	lion or more - see instruc	tions	
1 1	vet income (loss) per books			7 Income recorded	on books this year	· · · · ·	
2 F	ederal income tax per books	4		Tax-exempt inter	this return (itemize):		
	xcess of capital losses over capital gain	5			A		
	ncome subject to lax not recorded on books						
11	nis year (Itemize):	_		8 Deductions on th	is return not charged		
s =	vonces recorded as bests this way				ome this year (itemize):		
a D	xpenses recorded on books this year no aducted on this return (itemize); epreciation	24		a Depreciation	\$ butions . \$		
ьс	haritable contributions , \$	1	- 1				
сТ	raval and entertainment . \$						
_				9 Add lines 7 and 6			
6 A	dd lines 1 through 5			6 Innomedian - 4 No			
Sche	edule M-2 Analysis of Unap	propriated Retained	Earn	ings per Books	(Line 25, Schedu	ile I Y	
	arance at beginning of year	-1.240.10	64.	5 Distributions: a C	ash	-10 []	
2 N	et income (loss) per books	-2,121,148,15			tock		
3 0	ther increases (itemize);				roperty		
		.[6 Other decreases (itemize):		
			_	7 Add lines 5 and 6			
4 A	id lines 1, 2, and 3	-2,122,388,31	6.	8 Balance at end of	year (line 4 less line 7)	-2	122,388,316.
A Strant	1 508				y Inne Freedom F	-2,	Form 1120 (2013)

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SCHEDULE G

Information on Certain Persons Owning the

	ember 2011)]	Corporation's	Voting Stock	(- 1	OHD No. 4545 aver
Deportma	ant of the Treasury evenue Service	Attach to Form 1120. See instructions on page 2.					OMB No. 1545-0123	
Name	arenae ocanee		See Instruction	ons on page 2.	Emi	oloyer identific		
TEL	EXFREE, L	LC			-""	unhau tölktilitte	auon nur	nder (EIN)
_C/0	STEPHEN	DARR, BANKRUP	TCY TRUSTEE					
Part I	Certain Enti	ities Owning the Corr	poration's Voting St	ock. (Form 1120, 9	Scheduk	e K. Ques	tion 4a). Complete
		ship), trust, or tax-exe						
	instructions).		voting polici bi di	Classes Of file CO	poration	IS SIOCK E	ntitied	to vote (see
	(i) Name	of Entity.	(ii) Employer Identification					
	(i) Name	——————————————————————————————————————	Number (if any)	(iii) Type of Entit	У	(iv) Cou Organia		(v) Percentage Owns in Voting Stock
				 				
				-				
			 					
<u> </u>	_						- 6	
		1.45						
	 							
					- 1			
Part II	Certain Indivi	duals and Estates O	wning the Corporat	ion's Voting Stock	(Form	1120. Sch	redule	K.
	ecucolion 4D).	COMPLETE COMMISS	(II INfolian (IV) belaw	tor any individual a	er antmin	Allenda married	- alf 41	
	more, or own	s, directly or indirectl to vote (see instructio	IV. 50% or more of th	e total voting powe	rofallo	lasses of	the cor	poration's
		to tota (ace mandeno	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		600.0	unto at 1		
	(i)	Name of Individual or Estate		(ii) Identifying Number (ii any)	Citizens	untry of hip (see	(iv) Pe	rcentage Owned Voting Stock
					insur,	ctions)		Totally Stock
CARL	<u>OS WANZELI</u>	ER			US	3.	,	50.00
.Тамеч	S_MERRILL							
_ O PHOLES	O DEKKILL		 -		US	-	5	0.00
			ľ		Г			
						1		

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Forn	OMB No. 1545-0175				
Dena	Department of the Treasury			0040	
inten	nal Revenue Service	▶ Information about Form 4626 and its separate instructions is at www.irs.gov/form4626.		2013	
Name	TELEXFRE	E, LLC	Employ	er identification number	
	C/O STEP	HEN DARR, BANKRUPTCY TRUSTEE	EIIIDIOY	er identification number	
	Note: See the	e instructions to find out if the corporation is a small corporation execution			
	everydake will	midir (ax (Alvi i) under section 55(e).	- 1		
1	Taxable incom-	e or (loss) before net operating loss deduction	1	-2101985935	
_			·	2101363333	
2	Adjustments a	nd preferences:			
	Depreciation of	f post-1986 property	. 2a	<u>. </u>	
	- Autor Preside O	certified politifion control (scilings	1 04		
	· · · · · · · · · · · · · · · · · · ·	mining exploration and development costs	1 0-		
è	A LINGERIZATION	circulation expenditures (personal holding companies only)	1 24		
ì	I opposted gain o	or loss	. 2e		
	B r colit	INOIS	0.4		
1	Section 833/h)	e capital construction funds	. 29		
i	Tax shelter fam	deduction (Blue Cross, Blue Shield, and similar type organizations only)	. 2h		
i	Passive activitie	n activities (personal service corporations only) as (closely held corporations and personal service corporations only)	. 21		
k	Loss limitations	(1995), field deliperations and personal service corporations only)	. 2		
- 1	Depletion	rest income from an affect with the state of	. 2k		
n	Tax-exempt inte	erest income from specified private activity bonds	. 21		
п	Intangible drillin	g costs	. 2m		
0	Other adjustmen	nts and preferences	- 2n		
3	Pre-adjustment	alternative minimum taxable income (AMTI). Combine lines 1 through 20	3	10011	
4	Adjusted currer	ot earnings (ACE) adjustment:	᠂┝᠊ᡱ	-2101985935	
а	ACE from line 1	0 of the ACE worksheet in the instructions 42 -2101995935			
b	Subtract line 3 h	rom line 4a. If line 3 exceeds line 4a, enter the difference	٩		
	as a negative ar	mount (see instructions)			
C	Multiply line 4b b	by 75% (.75). Enter the result as a positive amount 4c	7		
đ	Enter the excess	, if any, of the corporation's total increases in AMTI from	7	1	
	prior year ACE a	djustments over its total reductions in AMTI from prior			
	year ACE adjus	tments (see instructions). Note: You must enter an			
P	ACE adjustment.	d (even if line 4b is positive)	_	1	
•		ro or more, enter the amount from line 4c			
	• If line 4b is les	ss than zero, enter the smaller of line 4c or line 4d as a negative amount	_4e		
5	Combine lines 3	and do. If zero or less, stee here the serve the server the		}	
6	Alternative tax ne	and 4e. If zero or less, stop here; the corporation does not owe any AMT at operating loss deduction (see instructions)	5	<u>-2101985935.</u>	
			6		
7	Alternative minis	mum taxable income. Subtract line 6 from line 5. If the corporation held a residual		!	
	Interest in a REM	IIC, see instructions	7	0101005005	
8	exculption bitasi	e-but (if the 7 is \$3 iv, but of more, skip lines 8a and 8h and enter -0- on line 8a).		<u>-2101985935.</u>	
a	Subtract \$150,00	10 from line 7 (if completing this line for a member of a			
	controlled group,	see instructions). If zero or less, enter -0-	. 1		
b	Multiply line 8a by	y 25% (.25)	1		
С	Exemption. Subtr	act line 8b from \$40,000 (if completing this line for a member of a controlled envis	1 I		
	see instructions).	If zero or less, enter -0-	8c	40,000.	
9	Subtract life of the	rom line 7. If zero or less, enter -()-	9	NONE	
10	Minimply line a by	20% (.20)	10	NONE	
	CITELLIAMAG MILLIMIT	util tax foreign tax credit (AMTF1C) (see instructions)	11		
3	Regular for Solid	m tax. Subtract line 11 from line 10	12	NONE	
	regular lax habilil	ly Derore applying all credits excent the foreign tay credit	13		
-	Form 1120, Sche	num tax. Subtract line 13 from line 12. If zero or less, enter -0 Enter here and on dule J, line 3, or the appropriate line of the corporation's income tax return			
r Pap	erwork Reduction	Act Notice, see separate instructions.	14	NONE	
		• • • • • • • • • • • • • • • • • • • •		Form 4626 (2013)	

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		ESTATA0232
	AMT depreciation NONE		
ł	ACE depreciation:		
	(1) Post-1993 property		
	(2) Post-1989, pre-1994 property		
	(3) Pre-1990 MACRS property		
	(4) Pre-1990 original ACRS property 2b(4)		
	(5) Property described in sections 168(f)(1) through		
	(4)		
	(6) Other property		
	(7) Total ACE depresentation Add Keep Child Marriet 81 (8)		
	ACE depreciation adjustment. Subtract the 2h/21 (continue).		
3	ACE depreciation adjustment. Subtract line 2b(7) from line 2a Inclusion in ACE of items included in earnings and profits (E&P):	2c_	NONE
-			
b	Tax-exempt interest income		
	36		
	1 3C		
0	Inside buildup of undistributed income in life insurance contracts		
G	the first and an arrange of the first for a partial	- 1	
	fist)		
Ţ	Total Increase to ACE from inclusion in ACE of items included in E&P. Add lines 3a through 3e	3 <i>f</i>	
4	Disallowance of items not deductible from E&P:		
a	Certain dividends received.		
b	Dividends paid on certain preferred stock of public utilities that are deductible	- 1	
	under section 2474b		
С	Dividends paid to an ESOP that are deductible under section 404(k)	- 1	
4	Name transport of the state of		
ч	Nonpatronage dividends that are paid and deductible under section 1382(c) 4d		
	Other Hame (see Resideling and See A Cold & Chicago	- 1	
-	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)		
ť	Total increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e		
5	Other adjustments based on rules for figuring E&P:	11	
а	Intangible drilling costs		
b	Circulation expenditures		
c	Organizational expenditures		
ď	LIFO inventory adjustments	- 1	
e	Installment sales		
f	Total other F&P adjustments. Combine lines So though So	.	
3	Disallowance of loss on evaluation of debt and	-	
7	Acquisition evaguese of life insurance comments for available to a surfit of the contract of t	-	
3	Denletion		
)	Racie adjustments in determining sein autore den unter den eine eine eine eine eine eine eine	_	
0	Adjusted current earnings. Combine lines 1, 2c, 3f, 4f, and 5f through 9. Enter the result here and on line 4a of	-	
	Form 4626		010100
		<u>- </u>	<u>2101985935.</u>

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SCHEDULE B (Form 1120)

Additional Information for Schedule M-3 Filers

OMB No. 1545-0123

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

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

	TELEXFREE, LLC	Employer Identification number (EIN)
_	C/O STEPHEN DARR, BANKRUPTCY TRUSTEE	
1	Do the amounts reported on Schedule M-3 (Form 1120), Part II, lines 9 or to the corporation from a partnership of income, gain, loss, deduction, or this corporation's capital contribution to the partnership or its ratio for shari	credit that are disproportionate to
2	At any time during the tax year, did the corporation sell, exchange, or transset to a related person as defined in section 267(b)?	nsfer any interest in an intengible
3	At any time during the tax year, did the corporation acquire any interest in person as defined in section 267(b)?	an intangible asset from a related
4a	During the tax year, did the corporation enter into a cost-sharing arrangement on whose behalf the corporation did not file Form 5471, Information Return Certain Foreign Corporations?	of U.S. Persons With Possest To
b	At any time during the tax year, was the corporation a participant in a corporation party on whose behalf the corporation did not file Form 5471?	ost-sharing arrangement with any
5	At any time during the tax year, did the corporation make any change in accounting purposes? See instructions for the definition of change in accounting	accounting principle for financial principle X
6	At any time during the tax year, did the corporation make any change in a income tax purposes?	a method of accounting for U.S.
7	At any time during the tax year, did the corporation own any voluntary en (VEBA) trusts that were used to hold funds designated for employee benefits?	mployees' beneficiary association
8	At any time during the tax year, did the corporation use an allocation method self-constructed assets that varied from its financial method of accounting?	d for indirect costs capitalized to
	At any time during the tax year, did the corporation treat for tax purposes indirect sections 1.263A-1(e)(3)(ii)(F), (G), and (H), as mixed-service costs, as (1.263A-1(e)(4)(ii)(C)?	defined in Regulations section
1	Did the corporation, under section 118 or 362(c) and the related regulation characterizing any amount as a contribution to the capital of the corporation-shareholders? Amounts so characterized may include, without limitation, in and property.	ion during the tax year by any

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

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

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SCHEDULE M-3 (Form 1120)

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

OMB No. 1545-0123

TELEXFERS LC SANKRIPTCY TRUSTER CONSCIPENCY CASTEPHEN DARK SANKRIPTCY TRUSTER CONSCIPENCY CASTEPHEN DARK SANKRIPTCY TRUSTER CONSCIPENCY CONSCIPENCY CASTEPHEN DARK SANKRIPTCY CASTEPHEN DARK CASTEPHEN DARK CASTEPHEN DARK CASTEPHEN CASTEPHEN DARK CASTEPHEN CASTEPHEN DARK CASTEPHEN CAS	Inte	Partment of the Treasury mal Revenue Service Attach to Form 1120 or 1120-C. ▶ Information about Schedule M-3 (Form 1 separate instructions is available at www.lrs.gov/form1120.	120) and its	2013				
Critical applicable box(es): (3) Missel 1120/L/PC group (4) Dermant subsidiative return (Form 1120 only) Dermant subsidiaries schedule attached Financial Information and Net Income (Loss) Reconciliation (see instructions) 1 a Did the corporation file SEC Form 10-K for its income statement period ording with or within this tax year? Yes. Subjulies 1 to and 1 c and complete lines 2s through 11 with respect to that income SEC Form 10-K X No. Go to line 10. X No. Go to line 10. Did the corporation prepare a certified suddien non-ta-abasis income statement for the period? Yes. Skip line 1 on doemplete lines 2 at through 11 with respect to that income statement. Oblit the corporation prepare and and safer the corporation's new statement for that period? Yes. Skip line 1 and one-flack basis income statement for that period? Yes. Complete lines 2s through 3: and safer the corporation's new statement for line period? X Yes. Complete lines 2s through 11 with respect to that income statement. No. Skip lines 2s through 3: and safer the corporation's new income statement period in 287 X Yes. Complete lines 2s through 3: and safer the corporation's new income statement. No. Skip lines 2s through 3: and safer the corporation's new income statement period on line 287 X Yes. (if "Yes," attack an explanation and the amount of each item restated.) No. If "No. "yo is line 4s. Enter the income statement been restated for the income statement periods prepared in the period on line 287 X Yes. (if "Yes," attack an explanation and the amount of each item restated.) No. If "No." yo is line 4s. Enter the inim-digit CUSIP number of the corporation's primary publicly traded voting common stock. In the period of the corporation's primary under the corporation's primary under the period on line 28 (line) and lines are specially stated voting common from nonincludible of lines and lines and lines and nonincludible ording entities (staten statement). So No lines from nonincludible ording entities (staten statement	Na	ne or corporation (common parent, if consolidated return)	Employer ider	tification number				
Check applicable bod(es): (1) Mon-consolidated return (2) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Mused 1120/L/PC group (4) Consolidated return (Form 1120 only) Consolidated ret			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	THE PERSON NAMED IN				
Financial information and Net Income (Loss) Reconciliation (see Instructions) 1 a Did the corporation file SEC Form 10-K for its income statement period origing with or within this tax year? Yes. Skip lines to and to and compete lines 2s through 11 with respect to that SEC Form 10-K X No. Go to line 15. See Instructions it multiple non-track-basis income statement bere prepared. Did the corporation prepare a certified audited non-track-basis income statement for that period? Yes. Skip line to and complete lines 2s through 11 with respect to that siccome statement. X No. Go to line 15. Did the corporation prepare a non-track-basis income statement for that period? Yes. Skip line to and complete lines 2s through 11 with respect to that income statement. No. Skip lines 2s through 31 and anter the corporation's net income flost) part its books and records on line 4s. 2 Enter the income statement period. Beginning 01 / 01 / 2013. Ending 12 / 31 / 2013. 3 Is any of the corporation's income statement been restated for the income statement period on line 2s? Yes. (if Yes, statch an explanation and the amount of each item restated.) No. If Yes, statch an explanation and the amount of each item restated.) No. If Yes, or that the corporation's volting common stock publicly traded? Yes. (if Yes, statch an explanation and the amount of each item restated.) No. If Yes, 'go to line 4s. Enter the symbol of the corporation's primary U.S. publicly traded voling common stock. In the symbol of the corporation's primary U.S. publicly traded voling common stock. In the inner-cipic CUSIP number of the corporation's primary publicly traded voling common stock. Enter the nine-cipic CUSIP number of the corporation's primary publicly traded voling common stock. No. If No. If No. If No. If Yes, 'and the corporation's primary publicly traded voling common stock. In the component of the corporation's primary U.S. publicly traded voling common stock. Did to the corporation's common statement to common statement to commo		Chark applicable boyles): (4) 37 N	_					
Financial Information and Net Income (Loss) Reconciliation (see Instructions) 1a Did the corporation file SEC Form 10-K for its income statement period ording with or within this tax year? Yes. Skip lines to 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. Did the corporation prepare a certified audited non-lax-basis income statements for that period? Yes. Skip lines to an decembrate lines 2a through 11 with respect to that income statement. X. No. Go to line 1c. Did the corporation prepare a non-lax-basis income statement for that period? X. Yes. Complete lines 2a through 1 with respect to that income statement. X. No. Skip lines 2a through 3c and enter the corporation's real income (loss) part its books and records on line 4a. Enter the income statement period. Seginning 01/01/2013 Ending 12/31/2013 Did the corporation's income statement been restlad for the income statement period on line 2a? Yes. (If "Yes." attach an explanation and the amount of oach item restladd.) No. 1a lax any of the corporation's voting common stock publicly traded? Yes. (If "Yes." attach an explanation and the amount of each item restladd.) No. 1 In In any of the corporation's primary U.S. publicly traded? Yes. (If "Yes." attach an explanation and the amount of each item restladd.) No. 1 In Interest the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock. 2 Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock. 3 In Interest 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		(2) Consolidated re						
1 a Did the corporation file SEC Form 10-K for its income statement period ording with or within this tay year? Yes. Skip lines to and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K. X No. Co for line 15. Sea Instructions if multiple non-trax-basis income statements are prepared. b Did the corporation prepare a certified audited non-trax-basis income statements are prepared. Did the corporation prepare a certified audited non-trax-basis income statements are prepared. X No. Co for line 15. X No. Complete lines 2a through 11 with respect to that income statement. No. Skip lines 2a through 3c and enter the corporation's nel income (loss) per lite books and records on line 4a. 2	De	Tomant subsider	iaries schedule	alteched				
Yes. Skip lines to and complete lines 2s through 11 with respect to that SEC Form 10-K. No. Go for line 1s. See instructions in multiple non-assubation increase statement for that period? Yes. Skip line 1s and complete lines 2s through 11 with respect to that income statement. No. Go to line 1s. Old the corporation prepare a certified audited non-fax-basis income statement for that period? Yes. Gompioto lines 2s through 11 with respect to that income statement. No. Skip lines 2a through 32 and anter the corporation's net income (loss) per lits books and records on line 4s. No. Skip lines 2a through 32 and anter the corporation's net income (loss) per lits books and records on line 4s. No. Skip lines 2a through 32 and anter the corporation's net income (loss) per lits books and records on line 4s. No. Skip lines 2a through 32 and anter the corporation's net income (loss) per lits books and records on line 4s. No. Skip lines 2a through 32 and anter the corporation's net line for the line of the line of the statement period on line 2s? Yes. (If "Yes," attach an explanation and the amount of ach item restated.) No. If "Yes," attach an explanation and the amount of ach item restated.) No. If "No." go to line 4s. Inter the symbol of the corporation's primary U.S. publicly traded voting common stock. 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. No. If "No." go to line 4s. No. If "No. go to line 4s. No. If "No. go to line 4s. No. If "No. go to line 4s. No. If "No. go to line 4s. No. If "No. go to line 4s. No. If "No. go to line 4s. No. If "No. go to line 4s. No. If "No. go to line 4s.	=	(Eosa) Reconcination (see instructions)						
Lay No. Go to line 1s. Sea instructions if multiple non-tax-basis income statement for that period?	•	Ves. Skip lines the and to and the section of the s						
Test Skip line 1 can do complete lines 2 at through 11 with respect to that income statement.		Y No. Go to line 1h. See instructions it with respect to that SEC Form 10-K.						
Yes. Skip line 1c and complete lines 2a through 11 with respect to that income statement.	1	Did the corporation propose a partition of auditorial proposes a partition of auditorial proposes a partition of auditorial proposes a partition of auditorial proposes a partition of auditorial proposes a partition of auditorial proposes and audi						
No. Go to line 1c.		Yes Skip line to and countries abunited non-tax-basis income statement for that period?						
C Did the corporation prepare a non-lax-basis income statement for that period? Yes. Compiles lines 2a through 11 with respect to that 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. 1 A No. 1 A No. 1 A No. 2 a Enter the corporation's income statement been restated for any of the five income statement period on line 2a? Yes. (If "Yes," attach an explanation and the amount of each item restated.) No. 1 A No. 2 a Le any of the corporation's voting common stock publicly traded? Yes. No. 3 a Le any of the corporation's voting common stock publicly traded voting common stock. Enter the symbol of the corporation's primary U.S. publicly traded voting common stock. Enter the hine-digit CUSIP number of the corporation's primary publicly traded voting common stock. Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock. Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock. 1 A Nortified consolidated anet income (loss) from income statement course identified in Part t, line 1 4a 4a −2,121,148,152. 1 Indicate accounting standard used for line 4a (see instructions): (1) □ GAAP (2) □ IFRS (3) □ Statutory (4) □ Tas-basis (5) □ Other (specify) 5 a Not income from non-includible foreign entities (attach statement) 5a 5a (and the component from non-includible foreign entities (attach statement) 5b Not Income floas) of other includible U.S. entities (attach statement) 6a 10a 10a 10a 10a 10a 10a 10a 10a 10a 10		Y No. Go to line 15						
Yes. Complete linces 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		Y Yes Complete lines 2s through 45 with assessment for that period?						
Has the corporation's income statement bear nestated for this income statement period on line 2a7 Yes. (If "Yes," attach an explanation and the amount of cach item restated.) No. Has the corporation's income statement bean restated for any of the five income statement periods preceding the period on line 2a7 Yes. (If "Yes," attach an explanation and the amount of each item restated.) No. No. No. If "No," go to line 4a. Enter the symbol of the corporation's primary U.S. publicly traded voting common stock. Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock. The indicate accounting standard used for line 4a (see instructions): (I) ARAP (2) IFRS (3) Statutory (4) Tax-basis (5) Other (specify) 5a Not income from nonincludible foreign entities (attach statement). 5b Nat loss from nonincludible foreign entities (attach statement). 5c) Nat income from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 5d) Nat loss from nonincludible U.S. entities (attach statement). 6d) Nat loss from nonincludible U.S. entities (attach statement). 7d) Nat loss from nonincludible U.S. entities (attach statement). 7d) Nat income (loss) of other includible entities (attach statement). 7e Nation (loss) of other includible entities (attach state		No. Skin lines 2s through 3s and extent to see that income statement.						
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Yes. (If 'Yes', attach an explanation and the amount of each item restated.)		Has the connection's income statement bened, Beginning 01/01/2013 Ending 12/31/2013						
	_	Yes /// You hetter an authorist restated for the income statement period on line 2e?						
Has the corporation's income statement been restated for any of the five income statement periods preceding the period on line 2a7 Yes. (If "Yes," attach an explanation and the amount of each item restated.) No. 13 a Is any of the corporation's voting common slock 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 slock. c Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common slock. 4 a Worldwide consolidated net income (loss) from income statement cource identified in Part I, line 1 4a2, 121, 148, 152. indicate accounting standard used for line 4a (see instructions); (1) \(\times \) GAAP (2) \(\times \) IFRS (3) \(\times \) statutory (4) \(\times \) Tax-basis (5) \(\times \) Other (specify) 5 a Not income from nonincludible of preign entities (attach statement). 5 a Not income from nonincludible U.S. antities (attach statement and onler as a positive amount). 5 b Not loss from nonincludible U.S. antities (attach statement and onler as a positive amount). 5 b Not loss from nonincludible U.S. antities (attach statement and onler as a positive amount). 5 a Not income (loss) of other includible foreign disregarded entities (attach statement). 5 a Not income (loss) of other includible (U.S. disregarded entities (attach statement). 5 a Not income (loss) of other includible u.S. disregarded entities (attach statement). 5 a Adjustment to reconcile income statement of includible entities and nonincludible entities (attach statement). 5 a Adjustment to reconcile income statement of includible entities and nonincludible entities (attach statement). 5 a Not income (loss) of other includible entities (attach statement). 6 a Incompany children adjustments to reconcile to line 11 (fattach statement). 7 b Income (loss) of the incompany children to reconcile to line 11 (fattach statement). 8 a Adjustment to reconcile income statement of includible corporations. Combine li		v us. (If tes, attach an explanation and the amount of each item restated.)						
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	•	Y Yes (If "Yes " extract or a release to see a second of the five income statement periods preceding	ng the period or	line 2a?				
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Yes. Yes. Yes. No. If "No." go to line 4a.	3 a							
No. If "No," go to line 4a.								
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Not income from nonincludible U.S. entities (attach statement). b Not loss from nonincludible U.S. entities (attach statement and enter as a positive amount) . 66b 7 a Not income (loss) of other includible foreign disregarded entities (attach statement) . 7a Not income (loss) of other includible entities (attach statement) . 7b Not income (loss) of other includible entities (attach statement) . 7c Not income (loss) of other includible entities (attach statement) . 7c Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement) . 9 Adjustment to reconcile income statement period to tax year (attach statement) . 9 Intercompany dividend adjustments to reconcile to line 11 (attach statement) . 10a Other statutory accounting adjustments to reconcile to line 11 (attach statement) . 10b Other adjustments to reconcile to amount on line 11 (attach statement) . 10c Note. Part I, line 11, must equal the amount on Part II, line 30, column (a), and Schodule M-2, line 2. 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. 10c 10c	ь	Net loss from nonincludible foreign entities (attach statement and enter as a positive amount)	Sh.					
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Other adjustments to reconcile to amount on line 11 (attach statement). 10b 10c 11 Net income (loss) per income statement of includible corporations. Combine lines 4 through 10		intercompany dividend adjustments to reconcile to line 11 (attach statement)	10-					
Net income (loss) per income statement of includible corporations. Combine lines 4 through 10		Other statutory accounting adjustments to reconcile to line 11 (attach statement)	40L	<u> </u>				
Note. Part I, line 11, must equal the amount on Part II, line 30, column (a), and Schodule M-2, line 2. 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 Total Liabilities Removed on Part I, line 4 Removed on Part I, line 5 Removed on Part I, line 6 Included on Part I, line 6 Included on Part I, line 7	C	Other adjustments to reconcile to amount on line 11 (attach statement)	100					
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	•	Net income (loss) per income statement of includible corporations. Combine lines 4 through 10		121,148,152.				
a Included on Part I, line 4		Note: Part i, line 11, must equal the amount on Part II, line 30, column (a), and Schedule M-2, line 2.						
a Included on Part I, line 4	12	2 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 for Paperwork Reduction Act Notice, see the Instructions for Form 1120.	a	Included on Part I, line 4						
d Included on Part I, line 6.	ь	Removed on Part I, line 5	, 615.					
or Paperwork Reduction Act Notice, see the Instructions for Form 1120	C	Removed on Part I, line 6						
or Paperwork Reduction Act Notice, see the Instructions for Form 1120	d	Included on Part I, line 7						
	or Pa	perwork Reduction Act Notice, see the Instructions for Form 1120.	Schedul	e M-3 (Form 1120) 2013				

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Name of corporation (common parent, to	consolidated return)			Pa Employer Identification number
TELEXFREE, LLC C/O STEPHEN DARR	BAMPDIIDMOV du	Ditompo		
	r I			
	sted group (2) Parent co		(4) Subsidiary of	orp (5) Mixed 1120/L/PC grou
Name of subsidiary (if consolidated return	0 proup (7) 1120 eliminations			
The state of the s	''			Employer identification number
Part II Reconciliation of	11-41			
Income per Return	Net income (Loss) per	Income Statement of Inc	ludible Corporati	ions With Taxable
	(see monuctions)			75
Income (Loss) Items (Altach statements for lines 1 through 1	(a) Income (Loss) per	(b) Temporary	(c) Permanent	(d)
1 Income (tass) from equity method foreign	Income Statement	Difference	Difference	hoome (Less) per Tax Rejum
corporations	•			
2 Gross foreign dividends not previously taxe	d			
3 Subpart F, QEF, and similar income Inclusion	ns -			
4 Section 76 gross-up				
5 Gross foreign distributions previously faxed				
corporations				
7 U.S. dividends not eliminated in tax consolidation				
8 Minority interest for includible corporations				
Income (foss) from U.S. partnerships				
10 Income (foss) from foreign partnerships				
11 Income (loss) from other pess-through entitle				
12 Items relating to reportable transactions				
(attach statement)				
13 Interest income (attach Form 8916-A)				
14 Total accrual to each adjustment.				
15 Hedging transactions				
The state of the s				
7 Cost of goods sold (attach Form 8916-A)		1		(
B Sale versus lease (for sellers and/or lessors)				
9 Section 481(a) adjustments				
0 Unearmed/deferred revenue				
 Income recognition from long-term contracts 	<u></u>			
 Original Issue discount and other imputed internal • 				
3a Income statement gain/loss on sale, exchange, abandonment, worldiessness, or		1		1
other disposition of attels other than				
inventory and pass-through entities		<u> </u>		
h Gross capital gains from Schedule D.				
excluding amounts from pass through entitles	i			
c Gross capital tosses from Schedule D.				
excluding amounts from pass-through entities abandonment losses, and worthless stock	1			
losses		1 1		1
d Net gain/loss reported on Form 4797, line				
 excluding amounts from pass-through entities, abandonment losses, and worthless 				
stock losses				
Abandonmeni losses	!			
f Worthless stock losses (attach statement).				
g Other gain/loss on disposition of assets other than loventory				
Capital loss limitation and carrylorward used				
Other Income Joss) items with differences				
(attach statement) Total income (lose) Items. Combine lines 1 through 25				
Total expense/deduction items (from Part				
III, (Ine 38)	-10 250 200			
	-19,250,202.	-76,968.	19,239,185	
Other items with no differences	-2,101,897,950.	STMT 7		-2,101,897,950.
combine lines 26 through 28	-2,121,148,152,	-76,968.	19,239,185	2,101,985,935.
b PC insurance subgroup reconcilation totals				
Reconciliation totals. Combine tines 28a	0.101.1.0			
Ihraugh 29c	-2,121,148,152.	-76,968.	19,239,185	2,101,985,935.
Note, Line 30, column (a), mus	st equal trie amount on Pa	art I, line 11, and column (d)	must equal Form 1	120, page 1, line 28.

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Schedule M-3 (Form 1120) 2013					
Name of corporation (common parent, if cons TELEXFREE, LLC	•			Employer Id	Page :
C/O STEPHEN DARR, I	BANKRUPTCY TRUS	STEE	I		
Check applicable box(es): (1) Consolidated	group (2) Parent corp (3	Consolidated elimina	tions (4) Subsidiar	V DOED (E)	Albert 4 4 8 8 9 18 18 18
Check it a stub-consolidated: (6) 1120 grou			- Canadada	A costs (a)[Mixed 1120/L/PC group
Name of subsidiary (if consolideled return)				Employer ide	entification number
Part III Reconciliation of Net	income (Loss) per inc	ome Statement of h	ncludible Corporat	ione letter	Taurists
	Expense/Deduction Item	ns (see instructions)	inoradible corporal	HOUS AAIR	raxaple
Expense/Deduction Items	(a)	(b)	(c)		
1	Expense per Income Statement	Temporary Difference	Permanent		(d) Deduction per
1 U.S. current Income tax expense	18,994,860.		Difference		Tax Return
2 U.S. deferred income tax expense	10,354,880.		-18,994,8	60.	
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)	J				
Foreign deferred income tax expense			 		
7 Foreign withholding laxes			11		
8 Interest expense (attach Form 8916-A)					
9 Stock option expense					
10 Other equity-based compensation			 		
11 Meals and entertainment	2,884.		 		- 6
12 Fines and penalties	186,720.		-1,4		1,442.
13 Judgments, damages, awards, and similar costs	100,720.		-186,7	20.	
14 Parachute payments					
15 Compensation with section 162(m) limitation					
16 Pension and profit-sharing			 	_	
17 Other post-relivement benefits					
18 Deforred compensation					
19 Chantable contribution of cash and tangible					
property	7,500.		_		
20 Charitable contribution of intangible property	7,300.		-7,50	00.	
21 Chertoble contribution limitation/carryforward					
22 Domestic production activities deduction					
23 Current year acquisition or reorganization					
Investment banking lees.				İ	
24 Current year acquisition or reorganization					
legal and accounting fees					
5 Current year acquisitass/reorganization other costs .					
6 Amortization/impairment of goodwill ,					
7 Amortization of acquisition, reorganization.					
and start-up costs					
8 Other amortization or impairment write-offs.					
9 Reserved				-	
Depletion .					
Depreciation	9,575.	76,968.			06 717
End debt expense				-	86,543.
Corporate owned life insurance premiums .					
Purchase versus lease (for purchasers and/or))
lessees)					
Research and development costs					
Section 118 exclusion (attach statement)					
Other expense/deduction items with			·		
differences (attach staten@TMTP -8 Fortel expense/deduction items. Combine	48,663.		-48,663	.	
lines 1 Mrough 37, Enter here and on Part II, Dog			40,000	-	
27, reporting positive emounts as regative and negative amounts as positive	19,250,202.	76,968.	-19,239,185		87,985.

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	1125-A	Cost of Goods Sold	1
Rev.	December 2012)	-	
ntema	ment of the Treasury of 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/form	OMB No. 1545-2225
Vame	TELEXFRE:	E, LLC	Employer identification number
	C/O STEP	HEN DARR, BANKRUPTCY TRUSTEE	Employer Identification number
1	Inventory at begin	uting of year	 -
2	Purchases		
3	Cost of labor		
4	Additional section	ZOJA COSIS (Altach schodule)	
5	Other costs (attack	D SCHECU(E)	
6	Total. Add lines 1	through 5	2.263.477
7	Inventory at end of	Vear	2,263,477.
8	Cost of goods sol	ld. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the	
	appropriate line of	your lax return (see instructions)	
9a	Check all methods	used for valuing closing inventory:	2,263,477.
	(i) Cost	*	
	(ii) Lower of	cost or market	
	(iii) L Other (Sp	secify method used and attach explanation.)	
ь	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 invento	ry method was used for this tax year, enter amount of closing inventory computed	▶ └─
	under LIFO	9d	[
e	lf property is produ	ced or acquired for resale, do the rules of section 263A apply to the entity (soo instructions)?	
f	Was there any cha	nce in determining quantities, past security is a supply to trie entity (soo instructions)?	L Yes L No
_ '	attach explanation	nge in determining quantities, cost, or valuations between opening and closing inventory? If "	es, Yes No
etio	2 0010000000000000000000000000000000000	As the false of	

inces are to the internal Revenue Code unless otherwise noted.

449E A I

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

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
- Real property or personal property (langible 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.

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Form 4562 **Depreciation and Amortization** OMB No. 1545-0172 (Including Information on Listed Property) Department of the Treasury Internal Revenue Service ► See separate instructions. Altachment Sequence No. 179 Attach to your tax return. 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 Election To Expense Certain Property Under Section 179 Note: If you have any listed property, complete Part V before you complete Part I. Maximum amount (see instructions) 1 Total cost of section 179 property placed in service (see instructions) 500,000. 2 2 86,543. Threshold cost of section 179 property before reduction in limitation (see instructions) 3 2,000,000 Reduction in limitation. Subtract line 3 from line 2, if zero or less, enter -0-4 Dollar fimiliation for tax year. Subtract line 4 from line 1. If zero or less, enter -0. If married filing separately, see instructions 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 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 В Tentative deduction. Enter the smaller of line 5 or line 8 86,543. 9 86,543. 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 (1). 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. Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.) Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions) 14 Property subject to section 168(f)(1) election 15 Other depreciation (including ACRS) 16 Part III MACRS Depreciation (Do not include listed property.) (See instructions.) MACRS deductions for assets placed in service in tax years beginning before 2013 17 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 (c) Basis for depreciation (d) Recovery (b) Month and year (a) Classification of property (business/investment dse placed in (e) Convention (f) Mathod (g) Depreciation deduction period only - see instructions) 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 27.5 yrs. ММ S/L property 27.5 yrs MM 9/1 i Nonresidential real 39 yrs. ММ S/L properly мм 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 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. JSA For Paperwork Reduction Act Notice, see separate instructions. Form 4562 (2013)

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F	TELEXFREE LLC om 4562 (2013)								7.						
F	Part V Listed Pro	perty (includent, recreation	de automo	biles,	certa	in ot	lher ve	hicles,	certai	n con	nouter	s. an	d pro	perty	Pa LISEd
	Note: For a	ny vehicle for	which was	are u	/ vinn tha		d124-					-, -,,	- p.o	perty	useu
_	24b, columns	s (a) through (c)	of Section A	1, all of	ang and Section	B, an	iaro mile d Section	age re Cifau	ite or de Oblicable	ductin	g lease	expe	nse, co	mplete	only
~	Section A -	Depreciation a	nd Other In	forma	tion (Car	stien:	See the	instruc	tions for	limits t	or pass	senger	Butomoi	hiles \	
		s to support the b	1000 III 1785	tment	ise claime	d?	Yes	No	24b If '	Yes," is	the evi	denca w	ritten?	Yes	g
	(a) Type of property (list	(b)	Business	,,	(d)		(e)	}	(1)		(g)		(h)	7	E (i)
	vehicles first)	Date placed in service	investment	use Co	cst or other	basis	Basis for de (business/in	veslment	Recovery		ethod/		preciation		led sec
25	Special depreciation	n allowers to	percentag				LIEG OF	nly)	period	Gar	rvention	d	eduction	_]. 1	79 cost
	Special depreciation the tax year and use	ed more than 50	r qualified 1% in a guali	listed itied by	property	placi	ed in se	rvice d	uring						
26	Property used more	than 50% in a	qualified bus	siness	nautese f	150 (56	e instruc	xions)			. 25				
			1	%	450.										
				%						├					
				%		_		-		├					—–
27	Property used 50%	or less in a qua	lified busines	SS USE:											
_				%	(3)	$ \Gamma$				S/L -		T			
				%						S/L -		-		\dashv	
_				%						S/L -		 - -		-	
8	Add amounts in colu	mn (h), lines 25	5 through 27	7. Ente	r here a	nd on	line 21,	page 1			28			\dashv	
. 0	Add amounts in colu	mn (1), line 26.	Enter nere	and or	i line 7, p	age 1							29	_	
			Secti	on R	- Inform	ıation	n on Hen	of Ma	histon						
א כ זטי	mplete this section for our employees, first answ	ventices used by	y a sole pro	prietor,	pariner,	or ot	her "more	than	5% owne	r," or c	related	person.	If you	provided	d vehi
<u></u>	our employees, first answ	rei tile questions	III Section C	o sea II	70011188	tan ex	ception to	comple	ating this	section	for thos	e vehicle	es.		
n	Total business financia	4		Ve	(a) hicle 1	v	(b) chide 2		(c) hicle 3		d) icle 4		(e)		(f)
	Total business/invest the year (do not inclu	iment miles dri ide commutina	ven during	1				"		401	inde 4	Ve	hicle 5	Vel	hicie 6
1	Total commuting mile	es driven during	the year	-		-		-				-		-	
	Total other per	sonal (nonce	ommutina)					├─-				-		┦—-	
	miles driven							ľ							
3	Total miles driven	during the	vear. Add									 		 	
	lines 30 through 32								- 1]			
1	Was the vehicle	available for	personal	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
	use during off-duty ho	urs?										1.22	1-140	1	FAIL
5	Was the vehicle use	ed primarily by	y a more				<u> </u>					191	 	+	╁
	than 5% owner or rela	ated person?							<u>L </u>				1	1	
5	Is another vehicle	available for	personal											 	\vdash
_	use?		<u> </u>					<u></u>	<u></u>				<u></u>		-
10-1	Section and the section	on C - Questio	ons for Em	ploye	rs Who	Prov	vide Veh	icles 1	for Use	by Th	eir Em	ploye	es		
ori Ori	wer these questions to e than 5% owners or re	o determine ir	VOU meet a	D AYCO	eption to	com	pleting S	ection	B for ve	hicles	used b	y emp	loyees v	who are	e not
	Do you maintain a v your employees?	viitten bolicy s	statement ti	hat pr	ohibits a	all per	rsonal us	se of v	ehicles,	includ	ing co	mmutir	ng, by	Yes	No
	your employees? Do you maintain a y employees? See the in	vritten policy s	statement ti	hat nr	chihite i	ereni	nal uca	of vali	olon ou		• • •				 -
	ambackers ore rise ti	HOW FICTIONS TOLIS	venicios uso	a by c	Ofborate	office	ers direct	oc or	194 or m	epi c	ommut "	ing, by	your		l
	Do you treat all use of	f vehicles by em	ployees as p	erson	al use?		,,,	1013, 01	170 01 111	OIG OW	mers	• • • •			┢
-	Do you provide more	a than five vel	hicles to yo	ur en	nplovees	, obta	in inform	nation	from vo	ur em	n	s abou	ıt the		
	use of the vehicles, an	d retain the info	ormation red	eived?	,				/-	4710	yua	_ 2501	1116		
-	use of the vehicles, an Do you meet the requi Note: <i>If your enswert</i>	rements conce	rning qualifi	ed aut	omobile	demo	nstration	use? (See instr	uctions	;; · · ·		• • • •		
_	Total Myear andres (001, 00, 03, 40	0, or 41 is "	Yes," d	o not coi	mplete	Section :	B for t	he covere	d vehi	cies,				
ır	t VI Amortization	<u> </u>									N.				
	(a)		(b)			(a)				Ī	(e)				
	Description of cos	ils	Date amortiz begins	ation	Amo	(c) rtizeble	e amount		(d) Code section	on	Amortiza period		Amortiza	(f) than for th	in was
	Amazimati t t t	hat hagine duri	-	3 1000	10 (in-t-	47- 1				percent		- III/OIII/28	mair (OF (I)	is year
-	AITIOFUZZIION OT CARIE II	wagins dull	ng your 201	⇒ rax	year (see	ınstrı	uctions):								
-/	Amortization of costs to											- 1			
	amoruzation of costs to									 -					$\overline{}$
			re vour 201	3 tav	1881										
_	Amortization of costs to Amortization of costs to otal. Add amounts in	hat began befo	re your 201	3 tax y	rear	to re	nort.	• • • • •				43			

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Description of Property					7	2013 Depreciation	ciation								
GENERAL DEPRECIATION AND AMORTIZATION	ID AMORTIZATIO	N													
LINE 6 DETAIL Asset description	Date placed in service	Unadjusted cost or basis	Bus,	179 exp. reduc. in basis	Basis Reduction	Basis for depreciation	Beginning Accumulated	Accumulated	₩.	re do		ACRS C	MA Cur	Current -vr 179	Current-year
SILLWORKS LTD KANATA		3,519.	_	⊢			Depreciation	Depreciation	thod D	5	Fife		ass exp	_ [depreciation
NEWEGG. COM		6,182,									†	+	E)	3, 519.	
65%		9, 596.	7								1	+	9	6, 182.	
ONTARIO LTD		1,175.		-							7	1	60	8,596.	
HEWEGG, COM		4,100.									1	-	1,	1,175.	
CDW		5, 625.	-							+	1	+	4	4, 100.	
CDW		5, 625,								1		1	3	5, 625.	
DISK DRIVES		1,396.	-	-	-					+	1	-	5,	5, 625.	
NEWEGG, COM		4, 106.			 					1	7	\dashv	-	1, 396.	
ONATARIO LID		3,906.	-							1	1	-	,	4, 106.	
CDM		25, 102.	┞							7	+	+		3, 906.	
6 HP DL 160 G6 SERVERS		2,700.	\vdash	-						+		-	25,	25, 102.	
PULSE SUPPLY		14,511.	-	-						+	1	+	2,	2,700.	
				-	-					+		-	14, 511.	511.	
			+		-							_		_	
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			╁	+							-		_		
			╁		1						H		L	-	
			+	+								L	-	+	
		-	+	+								-	-	+	
			+	+	1					-		<u> </u>	-	+	
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			+	1						+	+	1	-	-	
			+	1						+	-	-	<u> </u>	+	
			-						T		\dagger	+	-	+	
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20			_	-	- 				+	+	+	-	_		
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			-						+	+	1	-	_		
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Age Age Age													86, 543,	mi	
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								23							

2013 Depreciation

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TELEXFREE, LLC

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FORM 1120, PAGE 1 DETAIL

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE PAYROLL TAX EXPENSE

TOTAL

23,404.

2,952.

26,356. ------

7,500.

NONE

FORM 1120, PAGE 1 DETAIL

LINE 19 - CONTRIBUTIONS DEDUCTION

1.	TAXABLE INCOME (EXCLUDING CONTRIBUTIONS AND	
_	DOMESTIC PRODUCTION ACTIVITIES DEDUCTION	-2 101 005 005
2.	LESS: NOL CARRYOVER	-2,101,985,935.
3.	PLUS: CAPITAL LOSS CARRYBACK	
4.	TAXABLE INCOME WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL	
	DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION,	
	NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS	
5.	CONTRIBUTION DEDUCTION LIMITATION (TAXABLE INCOME X 10%)	-2,101,985,935.
6.	AMOUNT OF DEDUCTIBLE CONTRIBUTIONS	NONE
	CONTENDED CONTENDED	7 500

LINE 19 - 5 YEAR CONTRIBUTION CARRYOVER

AMOUNT OF DEDUCTIBLE CONTRIBUTIONS

7. CONTRIBUTION DEDUCTION (LESSER OF LINE 5 OR LINE 6)

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.

FORM 1120, PAGE 1 DETAIL

LINE 26 -	SUMMARY	OF	TRAVEL,	MEALS	AND	ENTERTAINMENT

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

LINE 26 - OTHER DEDUCTIONS

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

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TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 - OTHER CURRENT ASSETS	BEGINNING	ENDING
PROPERTY RESERVE LOAN TO TELEXFREE, INC.	278,374.	4,468,411.
LOAN TO TELEXELECTRIC, LLLP LOAN TO TELEXFREE FINANCIAL, INC LOAN TO TELEXMOBILE	701,525. NONE NONE NONE	NONE 2,022,329. 3,800,475. 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 MIDDLESEX SAVINGS WADDELL AND REED	NONE NONE NONE	18,068,961. 2,000,000. 7,299,409.
TOTAL	NONE	27,368,370.
SCH L, LINE 14 - OTHER ASSETS		
SECURITY DEPOSITS SOFTWARE	NONE	5,944.
ORGANIZATIONAL COSTS	NONE 3,475.	97,949. 3,475.
TOTAL	3,475.	107,368.
SCH L, LINE 18 - OTHER CURRENT LIABILITIES		
ACCRUED FEDERAL INCOME TAX ACCRUED STATE TAXES TELECOM TAXES PAYABLE COMMISSIONS PAYABLE LOAN FROM TELEXFREE, INC. PAYABLE BRAZILIAN HELP, INC.	4,624,801. 843,429. NONE NONE NONE 2,671.	19,964,030. 3,812,939. 23,404. 7,642,550. 5,390,753. 2,672.
TOTAL	5,470,901.	36,836,348.
	=======================================	

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FORM 1120, PAGE 5 DETAIL

SCH L, LINE 21 - OTHER LIABILITIES	BEGINNING	ENDING
ACCRUED ADVERTISING CREDITS	9,829,080.	2,161,474,220.
TOTAL	9,829,080.	2,161,474,220.
	===========	

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FORM 4626 DETAIL

LINE 20 - OTHER A	DJUSTMENTS - CONTRIB	UTIONS DEDUCTION	
DOMESTIC PRODU 2. LESS: NOL CARI 3. PLUS: CAPITAL	NG CONTRIBUTIONS AND UCTION ACTIVITIES DEP RYOVER LOSS CARRYBACK REGARD TO CONTRIBUTION		-2,101,985,935.
NOL CARRYBACKS 5. CONTRIBUTION I	OMESTIC PRODUCTION AC S, AND CAPITAL LOSS OF DEDUCTION LIMITATION UCTIBLE CONTRIBUTIONS	CTIVITIES DEDUCTION, CARRYBACKS	-2,101,985,935. NONE
		LINE 5 OR LINE 6)	7,500. NONE
5 YEAR CONTRIBUTIO	NS CARRYOVER		
YEAR ENDING	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL =	7,500.	NONE	
LINE 20 - CONTRIBU	FIONS ADJUSTMENT		
REGULAR CONTRIBUTIONS	ONS		NONE NONE
CONTRIBUTION ADJUST	TMENT		NONE

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TELEXFREE, LLC

1 age 30 01 32

SCHEDULE M-3, PART II DETAIL

LINE 28 - OTHER ITEMS WITH NO DIFFERENCES
OTHER INCOME/EXPENSE ITEMS WITH NO DIFFERENCES
TOTAL

-2,101,897,950. -2,101,897,950.

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3 9/9/2016 Letter A	Attaching Fo	rms 1120 and 11	20X for 2012	and 1120 for	Page 51 of 52

SCHEDULE M-3, PART III DETAIL				
LINE 37 - OTHER EXPENSE/DEDUCTION ITEMS WITH	WITH DIFFERENCES			
DESCRIPTION	EXPENSE PER INCOME SIMI	TEMPORARY DIFFERENCE	PERMANENT DIFFERENCE	DEDUCTION PER TAX RETURN
LOSS ON INVESTMENT TOTAL	48, 663.		-48, 663. -48, 663.	
			à	
				< ,

TELEXFREE, LLC

STATEMENT

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TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

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

TOTAL

15,256. 397,322.

1,850,899.

2,263,477. ------------ Case 18-04091 Doc 54-4 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 4 Frogres 1200 for 2014 \pm Page 14 of 23 \pm ON

		111	20	l	l	J.S. Cor	pora	tion l	ncom	e Tax Re	turn			OMB No. 1545-0123
Form Cepartment of the Treasury Internal Revenue Service For calendar year 2014 or tax year beginning, ending,			ng			2014								
_	Chec		FVCB					iu its set	parate inst	ructions is at w	rww.irs.gc	wiom		entification number
	a Cons	olidated ret			Name TELE								D Employer Ide	munication number
	b Life/r			TYPE	Number, stree	t and mom or s	DAKK,	APO bo	RUPTCY	TRUSTEE			<u></u>	
2	Perso	olidated retu nal holding	CO.	OR	ı				A, 800 11200	otiona.				100
3	Perso	Sch. PH) .		PRINT	City or town, s	MER STRE			or formion no	tal roda			0 / / 1 9	/2012 (see instructions)
	согр.	(eee Instruction	ma) L		'			,	r tolergit pe	Siai cooo			e Total assets	
4	Sched	lule M-3 ed • • •	.[\]	E Check if:	(1)	MA 0211 Initial return		Cin al sat	turn (3)	Name change	(n)		2	NONE_
-	_								 				s change	
									1a	163,11	3,395.			
	ء ا	Ralanc	o Subt	ract line th	from line 1a				10			1		
	2	Cost of	noode	sold (attack	Form 1125-A)	• • • • • •						1c 2	<u></u>	3,113,395.
	3	Gross	nrafit S	Subtract line	2 from line 1c				•	Exhibit		3	-	1,563,042.
	I -	Dividen	ole (Sel	hadula C. lic	ne 19)					4		4		1,550,353.
locome	5	Interes	ius (SC	neodie G, III	ie (<i>a)</i>				•		_	5		
2	6	Grace n	onie	· · · · · ·					•			6	"	
	7	Gross	conta						·			7		
	a	Canital	nain n	et income /:	attach Schodule	D (Form 11)	2011					8		
	9	Net asi	n or /lo	eet from Ec	orm 4707 Post	Il lino 17 (ett	nob Enro	4707)				9		
	10	Other is	ncome	(see instru	rtions - attach e	fatement)	acii Polii	14/9/).				10		
	11	Total in	come.	Add lines 3	through 10 .	idicinicity							1.6	1,550,353.
_	12													1,330,333.
deductions.)	13	Salarie	s and w	ages (less	employment cre	edits)		_,				13		19,170.
į	14	Repairs	and m	aintenance	- 380							14		990.
ğ	15	Bad del	bts			 					• • • •	15		
		Rents.										16		30,763.
Ilmitations on	17	Taxes a	and licer	ises					SEE, S	TATEMEN	T. 1.	17		61,291.
ion	18											18		
E	19	Charita	ble con	tributions.					SEE. S	TATEMEN	T. 2.	19		NONE
늗	20									n (atlach Form		20		
for	21											21		
(See instructions	22	Pension, profit-sharing, etc., plans						22		17,721.				
uct	23							23						
nstr	24	Employee benefit programs Domestic production activities deduction (attach Form 8903)								24				
	25	Domest	ic prod	uction activ	ities deduction	(attach Form	8903)					25		
Š	26	Other d	eductio	ns (attach s	statement)				SEE. S	TATEMEN	т. З.	26		0,046,128.
ons		Total de	eductio	ns. Add line	s 12 through 2	26					▶	27		0,176,063.
Deductio	28	Taxable	incom	e perore ne	t operating los	s deduction a	ina spec	iai deduç	ilions, Sub	tract line 27 from	m line 11	28	-2,28	8,625,710.
Pa	Zya h	Special	rating i deduct	oss deducti	ion (see instruc Jule C, line 20)				29a			300		
									29b					
_	30											29c	2 200	0 605 710
Refundable Credits, and Payments	31				I, line 11)							30	-2,28	8,625,710.
The state of	32	Total pa	yments	and refund	dable credits (S	ichedule J. Ps	rt II. line	21)				32		NONE
籠	33				instructions).							33		
	34				s smaller than					Lowed		34		NONE
Tex. Ri	35				larger than th							35		110112
_	36				t: Credited to 2						funded 🕨	36		
		Under p	enalties	of perjury, I de eclaration of p	clare that I have ex	amined this return taxpayer) is based	, including I on all info	accompanyli	ng schedules high preparer i	and statements, and sas any knowledge.	to the best o	f my knawi	edge and belief, it	is true, correct,
31	gn							-	h	,			4	discuss this return
Н	ere	Signal	ine										1 '	parer shown below
_		Signati of office				Date			Title	I == -			(see instruction	s)? Yes No
_	n Lad	- 1	**	preparer's na		Preparer's s	ignature			Date 6/20/20	017	Check	if PTIN	
	aid Toolar			MIDDLE								self-em,		
	repar se Or		rm's nam rm's add		MG LLP	DEEm						Firm's E	-	_
J.	- - 01	''y '''	mis dud		SOUTH ST							Y. Facilitati		
Fo	r Pap	erwork	Reduci		tice, see separ		ns.					61/-	-988-1000 Fo	m 1120 (2014)
JS.					•									

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TELEXFREE, LLC Form 1120 (2014)

S	chedule 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-		l i	
	financed stock)		80	_
3	Dividends on debt-financed stock of domestic and foreign corporations		netructors	
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	<u> </u>
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	7. 717
13	Dividends from foreign corporations not included on lines 3, 5, 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	Toolis Englis		
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4 ,		_11,	
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page	e 1, line 29b		

Form 1120 (2014)

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TELEXFREE, LLC Form 1120 (2014) Page Tax Computation and Payment (see instructions) Schedule J Part I-Tax Computation Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)). . . 3 NONE 4 NONE 5a Foreign tax credit (attach Form 1118).......... 5a 5b c General business credit (attach Form 3800) 5c 5d 6 7 NONE Personal holding company tax (attach Schedule PH (Form 1120)). 8 9a b Recapture of low-income housing credit (attach Form 8611) 9b c Interest due under the look-back method - completed long-term contracts 9c d Interest due under the look-back method - income forecast method (attach 9d e Alternative tax on qualifying shipping activities (attach Form 8902), 9e 10 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 13 13 14 14 15 15 16 16 17 17 18 18 19 Refundable credits from: 19a 19b 19c 19d Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32 . . Schedule K Other Information (see instructions) Check accounting method: a ____ Cash b X Accrual 1 Yes No Other (specify) See the instructions and enter the: a Business activity code no. ▶ <u>454390</u> b Business activity ▶ _ DIRECT_SALES_____ c Product or service ► COMMUNICATIONS 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 ▶ 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 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).

Form 1120 (2014)

Case 18-04091 Doc 54-4 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 4 Form 1120 for 2014 Page 4 of 23 TELEXFREE, LLC Form 1120 (2014) Page 4 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. If "Yes," complete (i) through (iv) below. (ii) Employer (iv) Percentage (iii) Country of Identification Number (I) Name of Corporation Owned in Voting Incorporation (if any) 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. (ii) Employer (iv) Maximum (lill) Country of (i) Name of Entity Identification Number Percentage Owned in Organization Profit, Loss, or Capital (if any) 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 Check this box if the corporation issued publicly offered debt instruments with original issue discount If checked, the corporation may have to file Form \$281, Information Return for Publicly Offered Original Issue Discount Instruments. 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) ▶_____ 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. STATEMENT 1 12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) >\$ 289,737,653 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?
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?
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?
Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair

Form 1120 (2014)

4C1135 2.000

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TELEXFREE, LLC

	π 1120 (2014)				Page 5
So	hedule L Balance Sheets per Books	Beginning	of tax year	End of t	ax year
	Assets	(a)	(b)	(c)	(d)
1	Cash		37,577,512.		NONE
2 a					
b	Less allowance for bad debis	((
3	Inventories	Using the state of			19
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				110112
8	Mortgage and real estate loans				
9	Other investments (attach statement)	STMT 4	27,368,370.		NONE
10 a	Buildings and other depreciable assets	86,542.	2.7500,5101	NONE	NONE
	Less accumulated depreciation	(9,575.)	76,967.	(NONE)	MANTE
	Depletable assets	3,3,3.	10,901.	NONE)	NONE
	Less accumulated depletion			,	
	Land (net of any amortization)			,	
	Intangible assets (amortizable only)				
	Less accumulated amortization				
					<u> </u>
		STMT 4	107,368.		NONE
15	Total assets		75,922,302.		NONE
	Liabilities and Shareholders' Equity			18 7 I I I I I	
16	Accounts payable Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (attach statement),	STMT 4	36,836,348.		NONE
19 20	Loans from shareholders		50.		NONE
21	Other liabilities (attach statement).	STMT 5	2,161,474,220.	THE 2 1 1 1 1	MONE
22	Capital stock: a Preferred stock	51111 5	2,101,111,220.		NONE
	b Common stock				
23	Additional paid-in capital			E HISKE	
24	Retained earnings - Appropriated (attach statement)				
	Retained earnings - Unappropriated		2 100 200 216	THE PARTY OF THE P	107729
26	Adjustments to shareholders' equity		-2,122,388,316.		NONE_
27	(altach statement)		,		
	Less cost of treasury stock		}		}
		-f lm-n-m-n /l\ m-n	75,922,302.		NONE
36	nedule M-1 Reconciliation of	и mcome (Loss) per n may be required to file Sch	Books with income	per Return	
1				on books this year	-
	Net income (loss) per books Federal income tax per books		not included or	this return (itemize):	
			Tax-exempt inte	rest 5	
	Excess of capital losses over capital ga				
	Income subject to tax not recorded on books				
	this year (itemize):			his return not charged	
5	Expenses recorded on books this year	not .		come this year (itemize):	
	deducted on this return (itemize):	100	a Depreciation, ,	\$	
а	Depreciation \$		b Charitable contr	ibutions . S	
Ь	Charitable contributions . \$				
C	Travel and entertainment . \$				
6			9 Add lines 7 and	8	
6	Add lines 1 through 5		10 Income (page 1. li	ne 28) - line 6 less line 9	
Sch	nedule M-2 Analysis of Una	ppropriated Retaine	d Earnings per Book	s (Line 25, Schedule	L)
1	Balance at beginning of year	-2,122,388,3		Cash	
2	Net income (loss) per books	2,305,405,4		Stock	
3	Other increases (itemize):	- 2 Ni-1106		Property	
				(itemize):	
	SEE STATEMENT 6	4,629,811,2	65. 7 Add lines 5 and	6	
	Add lines 1, 2, and 3			f year (line 4 less line 7)	NONE
ISA					Form 1120 (2014)

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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

Internal Revenue Service	See Instruction	ns on page 2.			
Name TELEVEDER IIC			Employerid	entification num	nber (EIN)
TELEXFREE, LLC C/O STEPHEN DARR, BANKRUP	TCY TRUSTEE				
Part I Certain Entities Owning the Corp	oration's Voting Sto	ock. (Form 1120, Sc	hedule K, C	≀uestion 4a`). Complete
columns (i) through (v) below for as a partnership), trust, or tax-exe	any foreign or dome	stic corporation, par	tnership (ind	luding any	entity treated
indirectly, 50% or more of the tot	al voting power of all	classes of the corp	oration's sto	ck entitled	to vote (see
instructions).					
(i) Name of Entity	(ii) Employer Identification Number (if any)	(lii) Type of Entity	<u> </u>	v) Country of	(v) Percentage Owner
	Number (ii any)			Organization	in Voting Stock
	;				
-					
76	18				
					_
	-				
					<u> </u>
	_				
		<u> </u>			<u> </u>
	<u> </u>				
Part II Certain Individuals and Estates C	Owning the Corporat	ion's Voting Stock.	(Form 1120), Schedule	: K,
Question 4b). Complete columns more, or owns, directly or indirect	(i) through (iv) below tlv. 50% or more of th	r for any individual o ne total voting powe	r estate inat r of all class	owns airec	itly 20% or progration's
stock entitled to vote (see instruction	ons).				or por ation 13
(I) Name of Individual or Estate		(ii) Identifying Number (if any)	(iii) Country (Citizenship (se	ee ((V) P	Percentage Owned n Voting Stock
	· · · · · · · · · · · · · · · · · · ·	(II BATY)	Instructions	"	n voting stock
CARLOS WANZELER_		~	US	5	0.000
TAMES MEDDIT					
JAMES MERRILL			US	5	0.000
-					
				+	
	_				

Form 4626

Alternative Minimum Tax - Corporations

OMB No. 1545-0123

► Attach to the corporation's tax return.

2014

ntema	Revenue Service Information about Form 4626 and its separate instructions is at www.irs.gov/form4626	. [
lame	TELEXFREE, LLC	Employe	r 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 l	
	alternative minimum tax (AMT) under section 55(e).	""	
1	Taxable income or (loss) before net operating loss deduction	1	-2288625710.
		. -	2200023710.
2	Adjustments and preferences:		
а		_ 2a	
b		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	
a	Merchant marine capital construction funds	2g	
h		2h	
i	Tax shelter farm activities (personal service corporations only)	2i	
i	Passive activities (closely held corporations and personal service corporations only)	2	
k	Loss limitations	· 21	
ï	Depletion	· 2K	
m	Depletion	. 21	10
n	Internal ble drilling costs	. 2m	
0	Intangible drilling costs	. <u>2n</u>	
3	Other adjustments and preferences	. 20	
4	Adjusted current earnings (ACE) adjustment:	. 3	-2288625710.
	ACE from line 10 of the ACE worksheet in the instructions		
b	Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference	7.	
U	Subtract line 3 from line 4a. If line 3 exceeds line 4a, enter the difference		
	as a negative amount (see instructions) 4b Multiply line 4b by 75% (.75). Enter the result as a positive amount 4c	-	
C		- 00	
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)	100	
е	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	<u>-2288625710.</u>
6	Alternative tax net operating loss deduction (see instructions)	. 6	
-	Alfa		
7	Alternative minimum taxable income. Subtract line 6 from line 5. If the corporation held a residu	- 1	
	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):		
а	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	_	
b	Multiply fine 8a by 25% (.25)		
C	Exemption. Subtract line 8b from \$40,000 (if completing this line for a member of a controlled ground instructions). (figure a transport of a controlled ground instructions).	p,	
	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
0	Multiply line 9 by 20% (.20)	10	NONE
1	Alternative minimum tax foreign tax credit (AMTFTC) (see instructions)	. 11	
2	Tentative minimum tax. Subtract line 11 from line 10.	. 12	NONE
3	Regular tax liability before applying all credits except the foreign tax credit	. 13	
4	Alternative minimum tax. Subtract line 13 from line 12. If zero or less, enter -0 Enter here and of	n	
o Po-	Form 1120, Schedule J, line 3, or the appropriate line of the corporation's income tax return	. 14	NONE
ır Map	perwork Reduction Act Notice, see separate instructions.		Form 4626 (2014)

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		
	b	ACE depreciation:		
		(1) Post-1993 property		
		(2) Post-1989, pre-1994 property		
		(3) Pre-1990 MACRS property		
		(4) Pre-1990 original ACRS properly		
		(5) Property described in sections 168(f)(1) through		ĺ
		(4)		
		(6) Other property		
		(7) Total ACE depreciation. Add lines 2b(1) through 2b(6)		
	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);		NONE
	а	Tax-exempt interest income		
	b	Death benefits from life insurance contracts		
	С	All other distributions from life insurance contracts (including surrenders) 3c		
	d	Inside buildup of undistributed income in life insurance contracts		
	0	Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial		
	-	list)		
	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:	31	
7	a	Certain dividends received		
	ь	Dividends paid on certain preferred stock of public utilities that are deductible under		
	_	section 247	i	
	С	Dividends pald to an ESOP that are deductible under section 404(k).		
	٠	binderios paid to an 2301 that are deductible bluer section 404(x)		
	d	Nonpatronage dividends that are paid and deductible under section 1382(c) 4d		
	•	Trompationage dividends that are paid and deductible differ Section 1302(c)		
	е	Other Hame (eng Pagulatings species 1 55(e) 1(d)/2)(i) and (ii) for a partial (in)		
		Other items (see Regulations sections 1.56(g)-1(d)(3)(l) and (ii) for a partial list) 4e 4		
	f	Total increase to ACE hospital of displayment of these and deducible for CSD Add Co. A. M. J. A.		
5	'		4f	
5	_	Other adjustments based on rules for figuring E&P:		34
	a	Intangible drilling costs		
	þ	Circulation expenditures	10	
	G	Organizational expenditures		
	0	LIFO inventory adjustments		
	6	Installment sales		
_	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	<u>-2288625710.</u>

4X2410 2,000

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SCHEDULE B (Form 1120)

Additional Information for Schedule M-3 Filers

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

Attach to Form 1120.See instructions on page 2.

OMB No. 1545-0123

Name	TELEXFREE, LLC	Employer identification number (EIN)		
	C/O STEPHEN DARR, BANKRUPTCY TRUSTEE			
1	Does any amount reported on Schedule M-3 (Form 1120), Part II, lines 9 or this corporation from a partnership of income, gain, loss, deduction, or creations.	edit that are disproportionate to this	Yes	
2	corporation's capital contribution to the partnership or its ratio for sharing other			X
-	At any time during the tax year, did the corporation sell, exchange, or transfer a related person as defined in section 267(b)?,			Х
3	At any time during the tax year, did the corporation acquire any interest in person as defined in section 267(b)?			х
4a	During the tax year, did the corporation enter into a cost-sharing arrange on whose behalf the corporation did not file Form 5471, Information Re To Certain Foreign Corporations?	eturn of U.S. Persons With Respect		X
b	At any time during the tax year, was the corporation a participant in a cost-storeign party on whose behalf the corporation did not file Form 5471?	sharing arrangement with any related		х
	At any time during the tax year, did the corporation make any change accounting purposes? See instructions for the definition of change in accounting		oran	_X_
6	At any time during the tax year, did the corporation make any change in a m tax purposes?	nethod of accounting for U.S. income		х
	At any time during the tax year, did the corporation own any voluntary employers that were used to hold funds designated for employee benefits?			х
	At any time during the tax year, did the corporation use an allocation met self-constructed assets that varied from its financial method of accounting?			Х_
	At any time during the tax year, did the corporation treat for tax purposes ind sections 1.263A-1(e)(3)(ii)(F), (G), and (H), as mixed-service costs, as defined if (ii)(C)?	n Regulations section 1.263A-1(e)(4)		х
	Did the corporation, under section 118 or 362(c) and the related regula characterizing any amount as a contribution to the capital of the corporon-shareholders? Amounts so characterized may include, without limitation	ration during the tax year by any		
	and property			х

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

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

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Doc 54-4 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit Case 18-04091 4 Form 1120 for 2014 Page 10 of 23

SCHEDULE M-3 (Form 1120)

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

OMB No. 1545-0123 **୭**⋒**1 /**

TELEXFREE , LC C/O STEPHEN DARR. BANKRIPTCY TRUSTEE Check applicable box(es): (i) \(\) \\ \(\) \\ \(\) \\ \(\) \\ \(\) \\ \(\) \\ \(\) \\ \(\) \\ \(\) \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\ \\		tment of the Treasury ► Attach to Form 1120 or 1120-C. ► Information about Schedule M-3 (Form 1120 at Revenue Service	20) and its	<u> </u>
TELEXFERE LLC Cneck applicable boxes: (i) X Non-consolidated return (2) Consolidated return (Form 1120 only) Part 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 1 band for and complete lines 2s through 11 with respect to that SEC Form 10-K No. Skip lines 1 band for and complete lines 2s through 11 with respect to that SEC Form 10-K No. Skip lines 1 band for actified saudied non-law-basis income statements are prepared. Did the corporation prepare a non-tax-basis income statement statement. No. Skip lines 1 band for actified saudied non-law-basis income statement. No. Skip lines 2s through 51 with respect to that income statement. No. Skip lines 22 through 52 and enter the corporation's net linear lipidate priorid? Yes, Complete lines 2s through 11 with respect to that income statement. No. Skip lines 22 through 52 and enter the corporation's net linear lipidate priorid? Yes, Complete lines 2s through 51 and enter the corporation's net linear lipidate priorid in linear lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate priorid lipidate lipidate priorid l	_	osparate moti detions is available at www.ns.gov/tomi 120.	moleves	dontification sumbon
Check applicable box(es): (1) Mon-consolidated return (2) Consolidated return (4) Consolidated return (4) Consolidated return (5) Consol	TE	LEXFREE, LLC	inployer	denuncation number
Simple Comment Comme				
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Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement). 9 Adjustment to reconcile income statement period to tax year (attach statement). 9 Intercompany dividend adjustments to reconcile to line 11 (attach statement). 10 Intercompany dividend adjustments to reconcile to line 11 (attach statement). 10 Other statutory accounting adjustments to reconcile to line 11 (attach statement). 10 Other adjustments to reconcile to amount on line 11 (attach statement). 11 Net Income (loss) per income statement of Includible corporations. Combine lines 4 through 10. 12 Enter the total amount (not just the corporation's share) of the assets and flabilities of all entities included or removed on the following lines. 12 Total Assets Total Liabilities 13 Included on Part I, line 4 14 NONE 15 NONE 16 Removed on Part I, line 5 17 Removed on Part I, line 6				
statement)	_			
Adjustment to reconcile income statement period to tax year (attach statement) 9 Intercompany dividend adjustments to reconcile to line 11 (attach statement) 10a Cother statutory accounting adjustments to reconcile to line 11 (attach statement) 10b Cother adjustments to reconcile to amount on line 11 (attach statement) 10c 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). 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 Included on Part I, line 4 NONE Removed on Part I, line 5 NONE Removed on Part I, line 6 NONE	0			
Included on Part I, line 4 Included on Part I, line 5 Removed on Part I, line 6 Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividend adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 11 (attach statement). Intercompany dividends adjustments to reconcile to line 1	۵	Adjustment to recognite income statement period to be year (attack statement)	8	
b Other statutory accounting adjustments to reconcile to line 11 (attach statement),				
C Other adjustments to reconcile to amount on line 11 (attach statement),				
Note. Part I, line 11, must equal Part II, line 30, column (a) or Schedule M-1, line 1 (see instructions). 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 Included on Part I, line 4 Removed on Part I, line 5 Removed on Part I, line 6				
Note. Part I, line 11, must equal Part II, line 30, column (a) or Schedule M-1, line 1 (see instructions). 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 Included on Part I, line 4 Removed on Part I, line 5 Removed on Part I, line 6 Removed on Part I, line 6		Net Income (loss) per income statement of includible corporations. Combine lines 4 through 10	110	_2 205 405 452
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 NONE Removed on Part I, line 4	.,			-2,303,403,433.
following lines. Total Assets Total Liabilities NONE NONE Removed on Part I, line 5 Removed on Part I, line 6	12		tities incl	uded or removed on the
a Included on Part I, line 4		following lines.		
a Included on Part I, line 4		Total Assets Total Liabilitie	es l	
b Removed on Part I, line 5	а			
c Removed on Part I, line 6 ▶	b		HOME	
	¢			
	d	Included on Part f, line 7		

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

Schedule M-3 (Form 1120) 2014

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Name of c	M-3 (Form 1120) 2014 orporation (common parent, if co				Employer ic	Page destification number
	able box(es): (1) Consolidate	BANKRUPTCY TRUS		(4) Subsidiary	corp (5)	Mixed 1120/L/PC group
	ubsidiary (if consolidated return)	group (7) 1120 eliminations			Employer id	lentification number
Part II	Reconciliation of N	et Income (Loss) per Inco	ome Statement of Incl	udible Corporat	tions Wit	h Taxable
———In	come (Loss) Items	(a)	(b)	(c)		(d)
(Attach st	talements for lines 1 through 12)	Income (Loss) per Income Statement	Temporary Difference	Permanent Difference		Income (Loss) per Tax Return
1 Income corpora	(loss) from equity method foreign					
2 Gross f	oreign dividends not previously taxed					
3 Subpart	F, QEF, and similar income inclusions					
4 Section	78 gross-up					
6 Income corpora 7 U.S. die	foreign distributions previously taxed a (loss) from equity method U.5. vidends not eliminated in tax dation					
	interest for includible corporations					
	(loss) from U.S. partnerships					
10 Income	(loss) from foreign partnerships					
11 Income	(loss) from other pass-through entities					<u> </u>
12 Items re	blating to reportable transactions			<u> </u>		
	income (see instructions)				_	
	crual to cash adjustment					
	transactions		-			_
	-market income (loss)					
	goods sold (see instructions)					
	rsus lease (for sellers and/or lessors)					
	481(a) adjustments		-			
	recognition from long-term contracts					
	seue discount and other imputed interest .		549			
23a Income exchang other o	statement gain/loss on sale, e, abandonment, worthlessness, or disposition of assets other than y and pass-through entities					
	capital gains from Schedule D, g amounts from pass-through entities					
excludin; abandon	capital losses from Schedule D, g amounts from pass-through entities, ament losses, and worthless stock					
17, excl entities,	n/loss reported on Form 4797, line uding amounts from pass-through abandonment losses, and worthless ses					
Abandon	iment losses					
g Other ga	is stock losses (attach statement), in/loss on disposition of assets other entory					
5 Other in (attach si 6 Total inc	oss limitation and carryforward used come (loss) items with differences tatement)					
through	25					
	pense/deduction Items (from Part	-16,780,272.		16 770 7	43	E 9.0
	ms with no differences	-2,288,625,181.	Na La La La La La La La La La La La La La	16,779,7		
9a Mixed gr	oups, see instructions. All others, lines 26 through 28	-2,305,405,453.		16,779,7		2,288,625,710.
b PC Insur	ance subgroup reconcillation totals					
 Reconcilii through 2 	rance subgroup reconciliation totals ation totals. Combine lines 29a	-2,305,405,453.		16,779,7	432	2,288,625,710.
Note.	Line 30, column (a), mus	st equal Part I, line 11, and c	olumn (d) must equal Fo	rm 1120, page 1,	line 28.	

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Schedule M-3 (For						Page 3
TELEXER	on (common parent, if cor EE, LLC	nsolidated return)			Employer ide	intification number
_C/O_STE	PHEN DARR.	BANKRUPTCY TRU	ISTEE			
Check applicable box(e				ions (4) Subsidian	v corp (5)	Mixed 1120/L/PC group
Check if a sub-consolid	dated: (6) 1120 gro	oup (7) 1120 eliminations		,,	,	,
Name of subsidiar	y (if consolidated return)				Employer ide	ntification number
Part III Rec	conciliation of Ne	et Income (Loss) per Ir Expense/Deduction It	ncome Statement of In	cludible Corporat	tions With	Taxable
	eduction Items	(a)		(4)		/-41:
		Expense per Income Statement	(b) Temporary Difference	(c) Permanent Difference		(d) Deduction per Tax Retum
1 U.S. current inco	me tax ernense	16,778,576.		-16,778,5	76.	
2 U.S. deferred inc						
	ыпепt income tax expense .					
	eferred income tax expense					
	ncome tax expense (other					
_	holding taxes)					
_						
6 Foreign deferred						
7 Foreign withholds	-			-		
	(see Instructions)					
9 Stock option expe	i			-		
10 Other equity-base		1 050				
11 Meals and enterta		1,058. 638.			529.	529.
12 Fines and penaltic					538.	
	s, awards, and similar costs					
	nts		<u> </u>	<u> </u>		
	ith section 162(m) limitation					
16 Pension and profit	I-sharing	11				
17 Other post-retiren				<u> </u>		
	sation			<u> </u>		
19 Charitable contrib	oution of cash and tangible					
property	· · · · · · · · · · · · · · · · · · ·			-		
20 Charitable contri	bution of intangible property			<u> </u>		
21 Charitable contribution	on limitation/carsylonward			<u> </u>		
22 Domestic produc	tion activities deduction			<u> </u>		
23 Current year acq	uisition or reorganization					
investment bankin	g fees			<u> </u>		
24 Current year acq	visition or reorganization					
legal and account	ing fees					
25 Current year acquish	tion/reorganization other costs »			700		
26 Amortization/Impa	irment of goodwill					
27 Amortization of a	equisition, reorganization,					
and start-up costs						
28 Other amortization	n or impairment write-offs.					
29 Reserved		<u> </u>			12-1	
30 Depletion						
31 Depreciation						
32 Bad debt expense						
33 Corporate owned	life insurance premiums .					
34 Purchase versus l	ease (for purchasers and/or					
lessees)						
35 Research and devi	elopment costs					
36 Section 118 exclu	sion (attach statement),					
37 Other expense/de	eduction items with					
*	statement)					10
lines 1 through 37	Effet here and on Part II, line					
	e amounts as negative and positive	16,780,272.		-16,779,7	43.	529.

Form 1125-A

(Rev. December 2012)

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

OMB No. 1545-2225

Department of the Treasury Internal Revenue Service

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

Cost of Goods Sold

ame	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)	5	1,563,042.
6	Total. Add lines 1 through 5	6	1,563,042,
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) Cost (ii) Lower of cost or market (iii) Other (Specify method used and attach explanation.)		
ь	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	
8	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instruction	ns)? .	Yes No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inventory attach explanation		

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, L.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.

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE PAYROLL TAX EXPENSE

TOTAL

46,808. 14,483.

61,291.

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TELEXFREE, LLC



FORM 1120, PAGE 1 DETAIL

LINE 19 - CONTRIBUTIONS DEDUCTION

1.	TAXABLE INCOME	(EXCLUDING	CONTRIBUTIONS A	AND	
_	DOMESTIC PRODUC	TION ACTIVI	TIES DEDUCTION;	-2,288,625,710.	

2. LESS: NOL CARRYOVER

3. PLUS: CAPITAL LOSS CARRYBACK

TAXABLE INCOME WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS

5. CONTRIBUTION DEDUCTION LIMITATION (TAXABLE INCOME X 10%)

AMOUNT OF DEDUCTIBLE CONTRIBUTIONS

-2,288,625,710. NONE 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.
	=======================================		=======================================	=======================================

2

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

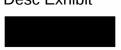
LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT BANK CHARGES REFUND EVENTS	34,021. 3,629. 1,425.
FILING AND REGISTERED AGENT FEES	6,668. 269,145.
LEGAL AND PROFESSIONAL FEES	2,140,637.
CONSULTING EXPENSES	3,896,209.
OFFICE EXPENSES	11,482.
PAYROLL FEES POSTAGE	21,451.
PERSONNEL	90.
SMALL TOOLS AND EQUIPMENT	47,344.
MERCHANT FEES	1,749. 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.
	=======================================

3

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TELEXFREE, LLC



FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 - OTHER CURRENT ASSETS	BEGINNING	ENDING
PROPERTY RESERVE LOAN TO TELEXELECTRIC, LLLP LOAN TO TELEXFREE FINANCIAL, INC LOAN TO TELEXMOBILE	4,468,411. 2,022,329. 3,800,475. 500,870.	NONE NONE NONE
TOTAL	10,792,085.	
SCH L, LINE 9 - OTHER INVESTMENTS		
FIDELITY INVESTMENT MIDDLESEX SAVINGS WADDELL AND REED	18,068,961. 2,000,000. 7,299,409.	NONE
TOTAL	27,368,370.	
SCH L, LINE 14 - OTHER ASSETS		
SECURITY DEPOSITS SOFTWARE ORGANIZATIONAL COSTS	5,944. 97,949. 3,475.	NONE
TOTAL	107,368.	
SCH L, LINE 18 - OTHER CURRENT LIABILITIES		
COMMISSIONS PAYABLE FEDERAL INCOME TAXES PAYABLE LOAN FROM TELEXFREE, INC. PAYABLE BRAZILIAN HELP, INC. STATE & LOCAL INCOME TAXES PAYABLE TELECOM TAXES PAYABLE	7,642,550. 19,964,030. 5,390,753. 2,672. 3,812,939. 23,404.	NONE NONE NONE NONE NONE
TOTAL	36,836,348.	NONE

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TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 21 - OTHER LIABILITIES	BEGINNING	ENDING
ACCRUED ADVERTISING CREDITS	2,161,474,220.	NONE
and the second s		
TOTAL	2,161,474,220.	NONE
	===========	

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TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH M-2, LINE 3 - OTHER INCREASES

SEE ATTACHMENT A

TOTAL

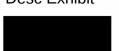
4,629,811,265.

4,629,811,265.

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TELEXFREE, LLC

FORM 4626 DETAIL



	=======================================		=======================================
LINE 20 - OTHER A	DJUSTMENTS - CONTRIBU	TIONS DEDUCTION	
1. AMTI (EXCLUDI DOMESTIC PROD 2. LESS: NOL CAR 3. PLUS: CAPITAL 4. AMTI WITHOUT	-2,288,625,710.		
DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS 5. CONTRIBUTION DEDUCTION LIMITATION (AMTI X 10%) 6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS			-2,288,625,710. NONE 7,500.
7. CONTRIBUTION	DEDUCTION (LESSER OF	LINE 5 OR LINE 6)	NONE
5 YEAR CONTRIBUTION	ONS CARRYOVER		
	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL	7,500.	NONE	•
LINE 20 - CONTRIBUTIONS ADJUSTMENT			
REGULAR CONTRIBUT	IONS		NONE NONE
CONTRIBUTION ADJU	STMENT		NONE

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TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

TELECOM & DATABASE NETWORK EXPENSE TERMINATION

TOTAL

57,886. 1,505,156.

1,563,042.

Telexfree, LLC
Tax Year Ended: December 31, 2014
EIN:

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.

EIN:

FORM 1120 - LINE 29A - NET OPERATING LOSS CARRYOVER

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

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

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RECEIVED

Psc

March 7, 2018

BY CERTIFIED MAIL

MAR I 2 2018

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

inaofaenda N 800 Exhibit 5

Taxpayer:

TelexFree LLC . Chapter 1

EIN: 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

3

Bankruptcy Trustee

John Dan

RECEIVED

MAR 28 2017

John Toll

Case 18-04091 /Doc 54-5 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc 5 3/7/2018 Lettet/Attaching Second Form 1120 X for 2012 Page 2 of 20 OMB No. 1545-0132 Amended U.S. Corporation Income Tax Return Form 1120X For tax year ending (Rev. January 2011) ► 12/31/2012 (Enter month and year.) Department of the Treasury Internal Revenue Service Employer identification number Name TELEXFREE, LLC Please Number, street, and room or suite no. (If a P.O. box, see instructions.) Type 100 HIGH STREET #2301 Print City or town, state, and ZIP code Telephone number (optional) BOSTON, MA 02110 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 (b) Net change -increase or (decrease) exptain in Part II (a) As originally reported or as Part I Income and Deductions (see instructions) (c) Correct amount previously adjusted Total income 1 15,407,680 2,459,180 17,866,860. Total deductions 2 16,647,623 1,219,237 17,866,860. Taxable income. Subtract line 2 from line 1 3 -1,239,943. 1,239,943. Total tax......... Payments and Credits (see instructions) 5a Overpayment in prior year allowed as a credit 5b 5c d Subtract line 5c from the sum of lines 5a and 5b 5d e Tax deposited with Form 7004 5e 5f Credit for federal tax on fuels and other refundable RECEIVE 5g Tax deposited or paid with (or after) the filing of the original return . . 6 692,854. Add lines 5d through 6, column (c) . . . , 7 692,854. 8 MUSTABLIA Subtract line 8 from line 7 692,854. Tax Due or Overpayment (see instructions) Tax due. Subtract line 9 from line 4, column (c). If paying by check, make it payable to the "United States Treasury"............. 10 Overpayment. Subtract line 4, column (c), from line 9....... 692,854. 11 Enter the amount of line 11 you want: Credited to 20 Estimated tax > 12 692,854. Refunded > 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. Sign Here

 Preparer
 Firm's name
 ► KPMG LLP
 Firm's EIN

 Use Only
 Firm's address
 60 SOUTH SPREET
 Phone no.

 BOSTON, MA
 02111
 617-988-1000

Form 1120X (Rev. 1-2011)

PTIN

Check

self-employed

Date

Paid

Signature of officer

Print/Type preparers name

JOSEPH MIDDLETON

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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 Explanation of Changes to Items in Part I (Enter the line number from page 1 for the Items you are changed in the Items of the Item	Form 1120X (F	
Carryback Claims in the instructions, and check here	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
Carryback Claims in the instructions, and check here	If the change	e is due to a net operating loss carryback, a capital loss carryback, or a general business credit carryback, see
	Carry back C	claims in the instructions, and check here
SEE ATTACHED		
	SEE A	TTACHED

Taxpayer: EIN: TelexFree, LLC

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.

3/7/2018 Letter Attaching Second Form 11/20X for 2013 Page 5 of 20 U.S. Corporation Income Tax Return

For calendar year 2012 or tax year beginning 07/19/2012 , ending 12/31/2012 OMB No. 1545-0123 Form Department of the Treasury Internal Revenue Service Information about Form 1120 and its separate instructions is at www.irs.gov/form1120. A Check if: B Employer Identification number TELEXFREE, LLC 1a Consolidated rel C/O STEPHEN DARR, BANKRUPTCY TRUSTEE (attach Fonn 851) TYPE b Life/nonlife Number, street, and room or suite no. If a P.O. box, see instructions. consolidated return 2 Personal holding co OR 100 HIGH STREET #2301 07/19/2012 (attach Sch. PH) PRINT City or town, state, and ZIP code D Total assets (see instructions) BOSTON, MA 02110 15,247,249. 4 Schedule M-3 attached . . . € Check if: (1) X Initial return (2) Final return (3) Name change (4) X Address change 1a Gross receipts or sales 18,220,915 1a b Returns and allowances 248,692. 1b Balance. Subtract line 1b from line 1a 10 17,972,223. 2 Cost of goods sold (attach Form 1125-A) 2 105,363. Gross profit. Subtract line 2 from line 1c 3 3 17,866,860. Dividends (Schedule C, line 19) 4 4 5 5 6 Gross rents 6 Gross royalties 7 7 Capital gain net income (attach Schedule D (Form 1120)) 8 8 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) . MAR. 9 10 10 11 11 17,866,860. 12 Compensation of officers (see instructions - attach Form 1125-E) 12 deductions.) 13 Salaries and wages (less employment credits) 400 13 14 14 15 Bad debts 15 16 Rents 16 8,028. 5 17 Taxes and licenses 17 limitations 18 18 19 19 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) 20 20 15,121. ģ 21 Depletion ____ 21 (See instructions 22 22 1,550. Pension, profit-sharing, etc., plans 23 23 Employee benefit programs 24 24 Domestic production activities deduction (attach Form 8903)..... 25 26 4,405,900 26 27 Deductions 27 4,430,999 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 28 13,435,861 29 a Net operating loss deduction (see instructions) 29a b Special deductions (Schedule C, line 20) 29b 13,435,861. Taxable income. Subtract line 29c from line 28 (see instructions) 30 31 34 Total payments and refundable credits (Schedule J, Part II, line 21) 32 32 692,854. Estimated tax penalty (see instructions). Check if Form 2220 is attached 33 33 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed 34 34 35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid , 35 692,854. 36 Enter amount from line 35 you want: Credited to 2013 estimated tax 36 692,854. 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 texpayer) is based on all information of which preparer has any knowledge. Sign May the IRS discuss this return Here with the preparer shown below (see instructions)? X Yes PTIN Print/Type preparer's name Check Paid JOSEPH MIDDLETON self-employed Preparer ▶ KPMG LLP Firm's name Firm's EIN 🕨 Phone no. Use Only Firm's address ▶ 60 SOUTH STREET BOSTON, MA 02113 617-988-1000 For Paperwork Reduction Act Notice, see separate instructions. Form 1120 (2012)

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TELEXFREE, LLC Form 1120 (2012) Page 2 Schedule C Dividends and Special Deductions (see instructions) (a) Dividends (c) Special deductions received $\{a\} \times \{b\}$ Dividends from less-than-20%-owned domestic corporations (other than debt-70 2 Dividends from 20%-or-more-owned domestic corporations (other than debt-80 Dividends on debt-financed stock of domestic and foreign corporations Dividends on certain preferred stock of less-than-20%-owned public utilities . . Dividends on certain preferred stock of 20%-or-more-owned public utilities . . . Dividends from less-than-20%-owned foreign corporations and certain FSCs . . 70 Dividends from 20%-or-more-owned foreign corporations and certain FSCs . . . 80 100 9 Total. Add lines 1 through 8. See instructions for limitation Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958 100 100 100 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12 13 Income from controlled foreign corporations under subpart F (attach Form(s) 5471). . . . 14 Foreign dividend gross-up IC-DISC and former DISC dividends not included on lines 1, 2, or 3 Deduction for dividends paid on certain preferred stock of public utilities 18

Form 1120 (2012)

Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4 . . .

Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b

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TE	JEXFREE, LLC			
Form	1120 (2812)			Page 3
	nedule J Tax Computation and Payment (see instructions)			
Par	t 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	······································	
5 :	Foreign tax credit (attach Form 1118)			
	Credit from Form 8834, line 30 (attach Form 8834)]		
•	General business credit (attach Form 3800)] [
(f Credit for prior year minimum tax (attach Form 8827)]		
•	Bond credits from Form 8912]		
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		
9 a	Recapture of investment credit (attach Form 4255) 9a			
k	Recapture of low-income housing credit (attach Form 8611)			
	Interest due under the look-back method - completed long-term contracts	1		
	(attach Form 8697)			
d	interest due under the look-back method - income forecast method (attach	1		
	Form 8866)	1 1		
6	Alternative tax on qualifying shipping activities (attach Form 8902) 9e	1		
	Other (see instructions - attach statement)			
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 4468	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:			
æ	Form 2439			
b	Form 4136	i I		
	Form 8827, line 8c	1		
	Other (attach statement - see instructions). 19d 692, 854.	1		
20	Total credits. Add lines 19a through 19d	20	692,8	35.4
21	Total payments and credits, Add lines 18 and 20. Enter here and on page 1, line 32	21	692,8	
	edule K Other Information (see instructions)		VV2,1	701.
1	Check accounting method: a Cash b X Accrual c Other (specify)		Îv	es No
2	See the Instructions and enter the:			1
	2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1			Į.
b	DIDECT CALEG		1	
	Product or service COMMUNICATIONS			ı
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?			x
-	If "Yes," enter name and EIN of the parent corporation		- · · · · · · · · · · · · · · · · · ·	+^
4	At the end of the tax year:			
а	Did any foreign or domestic corporation, partnership (including any entity treated as a partnersh	dn) te	et or tax exampt	
	organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting pr	ower o	f all chases of the	
	corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G).	OWER U	OH CIGGSOS OF IIIO	v
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the	1 4 4 4	coting poster of all	X
7	classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach	School	la C/	X
	(attach	ocueda		
			Form 1120 ((2012)

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TELEXFREE, LLC Form 1120 (2012) Page 4 Schedule K Other Information continued (see instructions) 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 861, Affiliations Schedule? For rules of constructive ownership, see instructions, Х If "Yes," complete (i) through (iv) below. (ii) Employer Identification Number (Iv) Percentage (I) Name of Corporation (iii) Country of Incorporation (if any) 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. (iv) Maximum (ii) Employer Identification Number (i) Name of Entity (iii) Country of stage Owned in Organization Profit, Loss, or Capital (if any) 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.) Х 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 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. Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ Enter the number of shareholders at the end of the tax year (if 100 or fewer) 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 valld. 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? Х 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)? Х If "Yes," complete and attach Schedule UTP. 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? Х 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? Х 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 (2012)

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TELEXFREE, LLC Form 1120 (2012)

4000	1120 (2012)				,	Page 5
Sc	neciule L Balance Sheets per Books	Beginning	of taxye	ar	End	of tax year
	Assets	(a)		(b)	(c)	(d)
1	Cash			NONE		1,707,287.
28	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	1	13,509,841.
7	Loans to shareholders			NONE]	12,124.
8	Mortgage and real estate loans			dermale have been been been been been been been be		
9	Other investments (attach schedule)			······································		
10 a	Buildings and other depreciable assets	NONE			15,121	
	Less accumulated depreciation	(NONE)	1	NONE		_
	Depletable assets	<u> </u>				
	Less accumulated depletion	()			(
					i	
	Intangible assets (amortizable only)					
	Less accumulated amortization	(1			7
14	Other assets (attach schedule)	STMT 2		NONE	<u> </u>	3,475.
	Total assets			NONE		15,247,249.
	Liabilities and Shareholders' Equity			*******		
16						
17	Accounts payable Mortgages, notes, bonds payable in less	•			İ	
18	than 1 year	STMT 2		NONE		7,265,686.
19	Loans from shareholders		 	NONE		50.
20	Mortgages, notes, bonds payable in 1 year or more			110112		
21	Other liabilities (attach schedule)					
22	Capital stock: a Preferred stock		j]
-	b Common stock					
23	Additional paid-in capital					
24	Relained semings - Appropriated (ellach 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.
Sc	hedule W-1 Reconciliation of	of Income (Loss) per	Book	s With Income	per Return	
	Note: Schedule M-3	required instead of Schedul	e M-1 if			tions
1	Net income (loss) per books	7,981,	513.		ed on books this year	
2	Federal income tax per books	4,624,	801.	Tax-exempt int	on this return (itemize):	
3	Excess of capital losses over capital ga					
4	Income subject to tax not recorded on book					
	this year (itemize):			8 Deductions on	this return not charged	
				against book ir	ncome this year (itemize):	
5	Expenses recorded on books this year deducted on this return (itemize):	not			\$	14,522.
а	Depreciation \$				tributions . \$	
	Charitable contributions , \$					
	Travel and entertainment . \$		640.			
	SEE STATEMENT 3	843,	429.		d8.,	14,522.
6	Add lines 1 through 5	13,450,	383.		line 28) - line 6 less line 9	13,435,861.
Sc	hedule M-2 Analysis of Un	appropriated Retaine	ed Ear	nings per Boo	ks (Line 25, Sched	ule L)
1	Balance at beginning of year		NONE		a Cash	
2	Net income (loss) per books		513.		b Stock	
3	Other increases (itemize):				Property	
				6 Other decrease	s (itemize):	
		1		7 Add lines 5 and	d 6	
4	Add lines 1, 2, and 3		513.		of year (line 4 less line 7)	7,981,513.
				······································		Form 1120 (2012)

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SCHEDULE G (Form 1120)

Information on Certain Persons Owning the Corporation's Voting Stock

(Rev. Decem	Rev. December 2019) Department of the Treasury Informal Revolves Service Attach to Form 1120. See Instructions on page 2.						(OMB No. 1545-0123
	XFREE, LI	LC DARR, BANKRUPTC	V TRIISTER		Emplo	yer identificati	on num	ber (EIN)
Part I	Certain Ent columns (i) as a partner	ities Owning the Corp through (v) below for a rship), trust, or tax-exe 0% or more of the tota	oration's Voting Sto any foreign or domes mpt organization tha	stic corporation, part t owns directly 20% o	nership or more	(including e, or owns,	any direc	entity treated atly or
	(i) Name	e of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity		(iv) Countr Organizali		(v) Percentage Owned in Voling Stock
	·			***************************************				
***************************************						***************************************		
·								
							venna varroaeverrrr	
•							<u> </u>	
								-
			.`			////		
Part II	Question 4b more, or ow	ividuals and Estates C b). Complete columns ons, directly or indirect to vote (see instruction	(i) through (iv) below ly, 50% or more of the	for any individual or	restate	that owns	direc	ctly 20% or
		(i) Name of Individual or Estate		(ii) Identifying Number (if any)	Citizen	ountry of ship (see actions)	(lv) i	Percentage Owned in Voting Stock
CARL	os wanzei	LER			U	S		50.00
JAME	S MERRILI	<u>.</u>			U.	s		20.00
CARO	LOS COSTA	A.	***************************************	FOREIGNUS	В	R		30.00
•	······································							
			. PORTPORTURE CONTROL					
	APLIENDAM JANGONIA							
-	Maria						***	

For Paperwork Reduction Act Notice, see the Instructions for Form 1120. 8421ME 1592

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Schedule G (Form 1120) (Rev. 12-2011)

Form 1125-A (Rev. December 2012)

Department of the Treasury

Cost of Goods Sold

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

OMB No. 1545-2225

	revenue service Finformation about Form 1125-A and its instructions is at www.irs.gov/fi	orm1	125a		
Vame	TELEXFREE, LLC			entification n	umbaz
	C/O STEPHEN DARR, BANKRUPTCY TRUSTEE				MINDU
1	Inventory at beginning of year	4			
2	rutchases	2			
3	Cost of labor	3			
4	Additional section 263A costs (attach schedule).	4			
5	Other costs (attach schedule)	5		105	,363.
6	Total. Add lines 1 through 5	6			,363.
7	Inventory at end of year	7			,,000.
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the			***************************************	
9a	appropriate line of your tax return (see instructions)	8		105	,363.
98	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	one of the letter was a writedown of submornial goods				T-1
G	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970).				П
đ	If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO.			,	<u> </u>
9	If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instruction	nsi?		Yes	X No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inventory attach explanation	2 SE 115/2	aa #		X 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 or 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.

USA-000011

Form 4562		Depre	ciation a	nd A	mortiza	tion			OMB No. 1545-D
Department of the Treasury	ŀ	(including	j Informatio	on on L	.isted Pro	perty)			2012
Internal Revenue Service (99)		See separate instr			ttach to you:				Attachment Sequence No. 17
Name(s) shown on return	TELEXFRE				•				Identifying number
Business or activity to which th	C/O STEP	HEN DARR, BA	NKRUPTCY 1	RUSTE	Е				
GENERAL DEPRECIAT		AMODETERMINA							
Part Election To	Expense C	ertain Property	Under Cook	470					
Note: If you	have any lis	sted property, co	molete Part	ON 179 V hefon	a vou com	oleto Dari I			
T INVEXEMENT AMOUNT (See	e instructions)							1	500.0
		mana us southout see	BISUUCHOOSI					2	500,0
Threatible cost of sect	nou ma brobe	arty perore reduction	in limitation (se	e instructi	ions)		• • • •	3	15,1 2,000,0
								4	2,000,0
5 Dollar limitation for tex year, separately, see instructions 6	(-) December 1	in no. 1. Il Zelo or less, ente	a -o It married filing	<u> </u>				5	500,0
	(a) Description	or property		(b) Cost (t	ousiness use on	ly) (c) Ele	cted cost	-	
									ļ
7 Listed property. Enter:	the amount fro	ym line 20	<u></u>						
A LOURI CICCICO COST OF 86	ection 179 pro	XXENV. Add amounts	to column (e) li	nac B ann	17				
* I CHERRY SCONCION, CI	rice the smalle	er of line 5 or line 8					,	8	15,1
10 Carryover of disallower	d deduction fro	om line 13 of your 20	011 Form 4562				• • • •	10	15,1
Coomicas income initits	alion. Enler in	e smaller of busines	ss income (not	lees that	n zaro) or lin	a E fama in al		11	500 0
12 Section 179 expense d	feduction. Add	l lines 9 and 10, but	do not enter ma	ore than li	ine 11		0	12	500,0 15,1
to carryover or dissilowed	a aeauction to	2013. Add lines 9 a	ind 10. less line	12	. ▶ 13		-: : : 1		10,1
Note: Do not use Part II or Pa	art III below for	listed property. Inste	ad, use Part V.						
Part II Special Dep	preciation A	lilowance and O	ther Depreci	ation (I	o not inclu	de listed prop	erty.) (S	See II	nstructions.)
4 opecial depreciation	allowance to	F qualified propert	ty (other than	lieteri	property) of	board in some			
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7 144000 4 4 4 4			so property.) (on A	ructions.)				
7 MACRS deductions for	assets placed	I in service in tex yea	Sections beginning be	on A fore 2012	ructions.)	***************************************		17	
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For	ELEXFREE, LLC m 4562 (2012)														Page
	OH CHEST HILL	operty (include ent, recreation, any vehicle for w	or amuser	nent.)										-	sed 1
	a in the contract	o (a) trii ougii (c) t	" ABCHOIL W	, an Oi v	3 <i>600001</i> 1	o, ano i	Section	u ir an	ibiicanie.						inly 2
24:	a Do you have evidence	Depreciation ar	id Other in	ormati	on (Cat	tion: S	ee the i	nstruc	tions for	limits fo	r passe	nger a	utomobil		
	(a)	(b)	(c)	ment us	e Claime	1	Yes (e)	No	245 11"	1		nce wr		Yes	<u>N</u>
	Type of property (list vehicles first)	Date placed In service	Business/ investment u percentage	cos	(d) t or other	basis (b	esis for dep usiness/inv use oni	restment y)	(f) Recovery period	Me	(g) ithed/ vention		(h) preciation sduction		(I) ed sectio 9 cost
25	Special depreciation year and used more to	allowance for qualif	alified listed ied business	proper	ty place	d in se	rvice du	ring th	e tax					1	
26	Property used more t	han 50% in a qualifi	ed business u	ise:	matrace	0.10)		• • •		• • • •	- 25	<u> </u>		<u> </u>	······································
				%								1		T	
			<u> </u>	%											
27	Property used 50% or	less in a qualified b	Helpece Heo.	%		L		***		İ		<u> </u>			
		Toda III a qualifica a	USH1033 USS.	%			11.1.1.	***************************************		S/L -		Γ		Υ	
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28 20	Add amounts in colum	on (h), lines 25 thr	ough 27. Ent	er here a	and on lit	e 21, pa	ge 1				. 28			1	
29	Add amounts in colun	an (i), line 26. Ente	r here and on	line 7, p	page 1 ,								29		
Con	nolete this section for	vehicles used by a	Section Solo Proprie	on B -	Inform	ation o	on Use	of Ve	hicles						
emp	nplete this section for ployees, first answer the	questions in Section	on C to see if	you me	et an exc	eption to	oce mai	n 5% c eting th	iwner," or is section	related for thos	person. e vehicle	If you s.	provided	vehicle	s to yo
			· · · · · · · · · · · · · · · · · · ·	(a)	·	b)	T	(c)		d)	<u> </u>	(e)		(f)
30	Total business/inves the year (do not include	tment miles driv te commuting miles	en during	Veh	icle 1	Veh	ide 2	Ve	hicle 3		licle 4	Ve	hicle 5		ilcle 6
31	Total commuting mile	s driven during th	e year											<u></u>	
32	Total other person	nai (noncommuti	ng) miles						***************************************			***************************************		<u> </u>	
2	driven						·····		······································						
33	Total miles driven o		Add lines												
34	30 through 32 Was the vehicle a	available for per	April inco	Yes	No	Yes	No	Yes	No	Yes	No	V	T 10-		T
	during off-duty hours?				-	- 100		100	110	100	140	Yes	No	Yes	No
35	Was the vehicle u	sed primarily by	a more							***************************************			-		
	than 5% owner or relat	ted person?		***************************************											
36			personal												
	use?			. mlaria	- Wh	Duard	- 1	2-1			ــــا				<u></u>
\ns	wer these questions	tion C - Question to determine if	vou meet s	ibioà6i	rs write	Provi	ae ven	ucles	tor Use	by Th	eir Em	ploye	es		
nor	e than 5% owners or	related persons	see instruc	tions).	puon a	comp	eung a	ection	I D IOF V	enicies	used b	y emp	loyees v	/ho are	∌ not
	Do you maintain a				ohibits	all per	sonal u	se of	vehicles	inclu	dina on	m musti	ng hu	Yes	No
	your employees?										-				
•	no les manifolds of the	much banch sidil	mioni mai j	THOUSE STATE	person	al use	ot vento	ies. ex	(cept con	ımırlina	. by you	ir emn	loyees?		
9	See the instructions for Do you treat all use of	venicies used by c	orporate offic	ers, dire	octors, or	1% or n	ora ewn	ers						ļ	ļ
0	Do you breat all use of Do you provide mo	ore than five v	chicles to	vour e	molovee	s. obta	in info	mation	from	WOUL O	mploves	· ·	ut the		├
	use or the vehicles, and	i retain the informa	tion received:	?											
										ns.)	· · • · ·				
	Note. If your answer to	31, 36, 39, 40, 614	11 is "Yes," do	not co	mplete S	ection B	for the o	overed	vehicles.						
i e	tVI Amortizatio	n													
	(a) Description of c	cosis	(b) Date amorti begins		Am	(c) ortizable	amount		(d) Code sec	lion	(e) Amortiz period	ation or	Amortiza	(f) tion for t	vis year
2 .	Amortization of costs	that begins during	your 2012	tax ye	ar (see	Instructi	ons);			<u>_</u>	percent	age			
										I		Т			
									·····						
3 /	Amortization of costs to	hat began before y	our 2012 lax	rear								43			
	Total. Add amounts in	column (f). See the	Instructions	for wher	e to repo	n						44			
A.													For	n 4562	(2012
310 2	8421ME 159	2													
	403	_												11	

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 26 - OTHER DEDUCTIONS

TRAVEL, MEALS AND ENTERTAINMENT		726.
GROSS CREDIT LIABILITY ACCRUAL	SEE STATEMENT 1A	4,261,846.
BANK CHARGES		17,586.
MERCHANT FEES		84,712.
FILING FEES		1,104.
MISCELLANEOUS	V	512.
OFFICE EXPENSES		466.
OFFICE SUPPLIES		2,441.
PROFESSIONAL FEES		23,933.
PRODUCT DEVELOPMENT		6,320.
SMALL ITEMS NOT CAPITALIZED		6,254.
		0,254.
TOTAL		4,405,900.

Taxpayer:

TelexFree, LLC

EIN:

relexifiee, LLC

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
\$0	Credits outstanding EOY

STATEMENT 1A

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TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

SCH L, LINE 6 - OTHER CURRENT ASSETS	BEGINNING	ENDING
PROPERTY ON HOLD LOAN FROM TELEXFREE INC LOAN TO YMPACTUS	NONE NONE NONE	938,871. 701,525. 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 ACCRUED STATE TAX BRAZILLIAN HELP INC LOAN TO/FROM TELEXFREE LLC OTHER CURRENT LIABILITIES	none none none none none	4,624,801. 843,429. 2,672. 701,525. 1,093,259.
TOTAL	NONE	7,265,686.

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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

843,429.

TOTAL

843,429.

STATEMENT

3

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TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

TELECOM & DATABASE NETWORK EXPENSE TERMINATION

14,691. 90,672.

TOTAL

30,672.

105,363.

Taxpayer:

TelexFree, LLC

EIN:

Telexifiee, L

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

(\$10,292,011)

Total NOL C/B

(\$13,435,861)

2012 Taxable Income after NOL

0.

STATEMENT 5

Taxpayer: EIN:

TelexFree LLC

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



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



Date: 06/17/2019

Taxpayer ID number (last 4 digits):

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.

Case 18-04091 Doc 54-6 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc 6 IRS Disallowance of 2012 Refund Claim Page 2 of 15

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 Case 18-04091 Doc 54-6 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc 6 IRS Disallowance of 2012 Refund Claim Page 3 of 15

Reason for Disallowance:

SEE ATTACHMENT

Case 18-04091 Doc 54-6 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc 6 IRS Disallowance of 2012 Refund Claim Page 4 of 15

Taxpayer: Telexfree, LLC. Tax year(s): 201212

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.

Case 18-04091 Doc 54-6 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc 6 IRS Disallowance of 2012 Refund Claim Page 5 of 15 Taxpayer: Telexfree, LLC.

Tax year(s): 201212

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."

Disallowance of 2012 Refund Claim Page 6 of 15

Form **3363** (Rev. November 1983)

Acceptance of Proposed Disallowance of Claim for Refund or Credit

Department of the Treasury — Internal Revenue Service

Name(s), SSN or EIN, and address of taxpayer(s) (Number, Street, City or Town, State, ZIP Code)

Telexfree, LLC EIN# 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)

Disallowance of 2012 Refund Claim Page 7 of 15

Form **2297** (Rev. March 1982)

Department of the Treasury-Internal Revenue Service

Waiver of Statutory Notification of Claim Disallowance

I, Telexfree, LLC,	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.

		Cla	ims		
(a)	(b)		(c)	(c)	
Taxable Period Ended	Kind of Tax		Amount of Claim		Amount of Claim Disallowed
201212	Income Tax		6	592,854	692,854
If you file this waiver for a joint					
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	Your Signature (Date signe) Spouse's Signature If A Joint Return Was Filed				(Date signed)
for him or her. For an agent or attorney acting under a power of attorney, a	Taxpayer's Representative				(Date signed)
power of attorney must be sent with this form if not previously filed.	Sign Here - Partnership/	-			(Date signed)
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.	Corporate Name: Telexfree, LLC Name: Stephen Darr, Bankruptcy Trustee				
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.	Partners/ Corporate Officers Sign Here		(Title)	_ 	(Date signed)
For a corporation, enter the name of the corporation followed by the signature and title of the officer(s) authorized to sign.	e corporation followed by the ature and title of the officer(s)		(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.



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

You must request reconsideration in writing and submit it to your local IRS office.

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Po 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/

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.

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:

- 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.)
- 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.

If the examination is conducted in person, you can:

- 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.
- Have someone accompany you, either to support your position or to witness to the proceedings.
- 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.
- 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:

- 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.

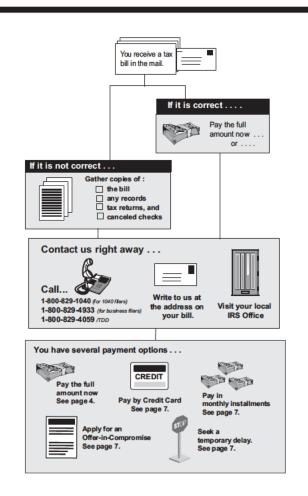
The consent will be sent or presented to you with a letter explaining this process and **Publication 1035**, *Extending the Tax Assessment Period*. For further information, refer to this publication.

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



Disallowance of 2012 Refund Claim Page 12 of 15 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.

Disallowance of 2012 Refund Claim 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.



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 poss ble. 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, TELEXFREE, INC., and TELEXFREE FINANCIAL, INC., Debtors.	Case No. 14-40987-MSH Case No. 14-40988-MSH Case No. 14-40989-MSH Jointly Administered
STEPHEN DARR, AS HE IS THE TRUSTEE) OF THE CHAPTER 11 ESTATES OF EACH) OF THE DEBTORS,) Plaintiff and) Counterclaim Defendant,)	Adv. Proc. No. 18-04091 Judge Melvin S. Hoffman
v.) UNITED STATES OF AMERICA,) DEPARTMENT OF THE TREASURY,)	
Defendant and Counterclaim Plaintiff.	

RESPONSE BY TRUSTEE TO DEFENDANT/COUNTERCLAIM PLAINTIFF UNITED STATES' INTERROGATORIES

Stephen Darr, the Plaintiff and Counterclaim Defendant and the Chapter 11 Trustee (the "<u>Trustee</u>") 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:

Case 18-04091 Doc 54-7 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc 7 Response by Trustee to USA Interrogatories Page 3 of 7

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,

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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

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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)

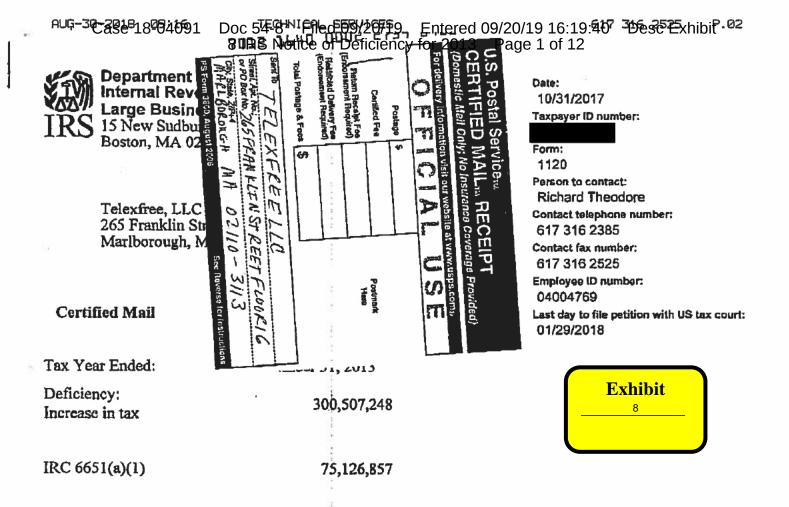
Andrew G. Lizotte (BBO #559609)

Murphy & King, Professional Corporation

One Beacon Street Boston, MA 02108 (617) 423-0400

Dated: June 24, 2019

759872





Dear Telexfree, LLC:

Why we are sending you this letter

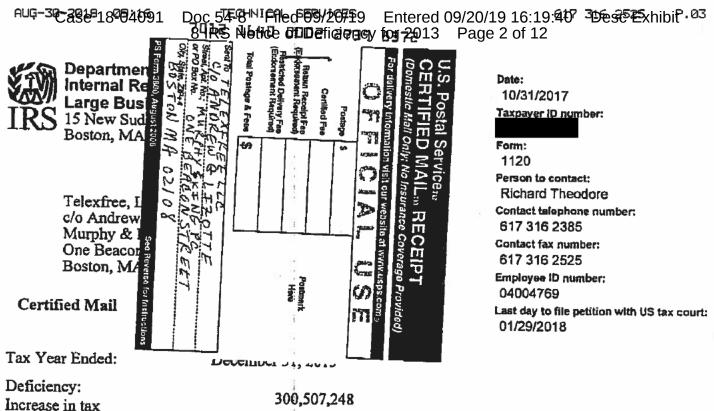
We determined that you owe additional tax or other amounts, or both, for the tax year or years identified above. This letter is your Notice Of Deficiency, as required by law. The enclosed Form 4549-A, Income Tax Discrepancy Adjustments or Form 5278, Statement - Income Tax Changes, shows how we figured 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.



IRC 6651(a)(1)

75,126,857



Dear Telexfree, LLC:

Why we are sending you this letter

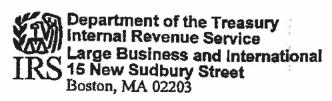
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Tclexfree, LLC c/o Harold B Murphy Murphy & King PC One Beacon Street Boston, MA 02108

Date:

10/31/2017

Taxpayer ID number (last 4 digits):

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:

Dear Telexfree, LLC

■ COPY 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.

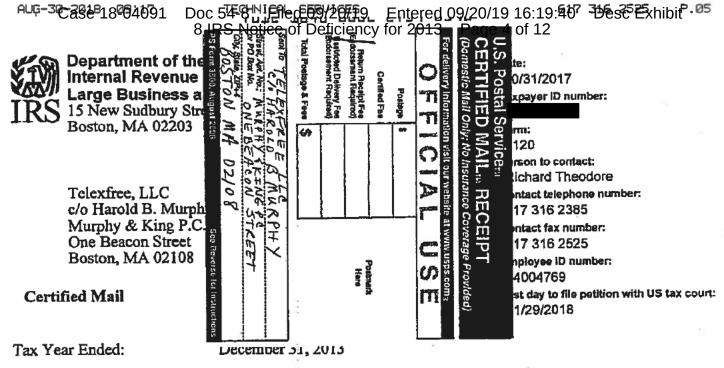
Sincerely,

John Koskinen Commissioner by Susan Lamastro, Territory Manager

Enclosures: Publication 5 Publication 594

Reasons for disallowance:

See Attachment



Deficiency: Increase in tax

300,507,248

IRC 6651(a)(1)

75,126,857



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.

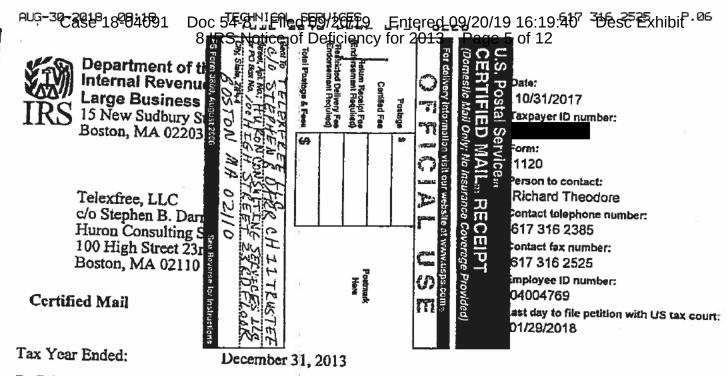
If you wish to challenge this determination

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

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Letter 531 (Rev. 2-2017) Catalog Number 40223L



Deficiency:

Increase in tax

300,507,248

IRC 6651(a)(1)

75,126,857



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.

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8 IRS Notice of Deficiency for 2013 Page 6 of 12
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
COPY
Territory Manager--Technical Services

Enclosures: [Form 4549-A or Form 5278] Form 4089-B AUG-36-88-18-04-091

Doc 548 Notice of Deficiency for 2013 Page 8 of 12

Form 4089-B		Department of the Treasury — Internal Revenue Service	Symbols 7 p.e.T
(October 1989)		Notice of Deficiency-Waiver	LB&I
Name and address	of taxpaye	er(s) Social Security of	or Employer Identification Number
Telexfree, LLC c/o Stephen D 100 High Stree Boston, MA	arr, Banl et, 23rd F	kurptcy Trustee	
Kind of tax	111	Copy to authorized representative	
Income	Tax		
7.		DEFICIENCY — Increase in Tax and Penalties	
Tax Year Ended:	201312	4	
Deficiency: Increase in tax	\$300,50	7,248	
IRC section 6651(a)(1)	\$75,126	5,857	3
		₹	
		•	
		**	
		See the attached explanation for the above deficiencies	
I consent to the implication interest provided by		sessment and collection of the deficiencies (increase in tax and pe	analfies) shown above, plus any
Your Signature	-	-	(Date signed)
Spouse's Signatu (If A Joint Return Was Filed)	ге		(Date signed)
Taxpayer's Ropresentative Sign Here	-		(Date signed)
Corporate Name	→		100 PPG 170 - V 100
Corporate Officer Sign Here	s 🟲	(Signature) (Title)	(Dale signed)
		(Signature) (Title)	(Date signed)

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Instructions	s for Form	4000	0
	a jui carm	allau	

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 th	e 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.

Cal. No. 29000E

- F070						Page 1 of 1	
Form 5278 (Rev. June 2011	<u>· 1</u>	Statement - Incon	ne Tax Chan	ges		Schedule	
1. Name(s) of tax	payer(s)		2. X Notice of Deficiency Other				
Telexfree, LLC			Settlement Cor	mputation			
3. Taxpayer Identii	fication Number	4. Form number	5. Docket number	6	6. Office	symbols	
		1120				LB&I	
				Tax Year(s) i	Ended		
7. Adjustments to	income			12/01/201	3		
a. Bad Debt				186,344,8	398,00		
b. Commissions				622,588,0	34.00		
c. Advertising Cre	edits			2,151,645,1	140.00		
d.							
e.		-		•			
f.		0.				· · · · · · · · · · · · · · · · · · ·	
g.						****	
h.		<u> </u>					
8. Total adjustme	nts			2,960,578,0	72.00		
9. Taxable income	as shown in						
Preliminary	y letter dated		*	10 404 ODE O	35.00		
X Notice of d	eficiency dated			(2,101,985,93	35.00)		
Return as i	filed	:	1		- 1		
10. Yaxable incom	ne as revised			858,592,1	37.00		
11. Tax	Tax Method					• •	
	Filing Status			300,507,2	48.00		
12 Alternative tax					 		
		in for some const					
				200 507 0	40.00		
		or line 11 or 12 plus line 13)		300,507,2	48.00		
Alternative tax, if Alternative minin Corrected tax ii Less credits	a.						
	Ь.						
10 Determine (Free	[C						
16. Balance - (line 17. Plus other	· ·	les 15a - 15c)		300,507,2	48.00		
taxes	8.						
	b.						
19. Total parmeter	C.	and Calus Engad To d'Ad					
19. Total tax shown		ne 16 plus lines 17a - 17c)		300,507,2	48.00		
20. Adjustments:		SEAKOGRIÀ GOÎNEIGO			\rightarrow		
increase or	a.	<u> </u>		 -		Vs.	
(decrease) to:	b.	<u> </u>					
21. Deficiency - In-	Crease in tax (or	erassessment - decrease in tax)					
(line 18 less line	9 19 adjusted by I	ines 20a - 20c)		300,507,2	48.00		
		ts - increase (decrease)					
3. Balance due or (line 21 adjusted	r (Overpayment) d by line 22)	excluding interest and penalties		300,507,2	48.00		
4. Penalties and/	or Additions to 1	ax (listed below)			$\neg \uparrow$		
RC section 6651(a		· iii		75,120	6,857		
		20					
		775					

AUG-3 CASE 18 04091 Doc 54-8 N Filed F0 20719 Entered 09/20/19 16:19:40 36 65 6 k hibit 12 8 IRS Notice of Deficiency for 2013 Page 11 of 12

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.

ALG-3C3SE18204091 Page 12 of 12

8 IRS Notice of Deficiency for 2013 in re: Telexfree, LLC

Schedule A-1 **Explanation of Adjustments**

d. Explanation of the Delinquency Penalty IRC § 6651(a)(1) \$ 75,126,857

15-Sep-2014
13-Sep-2016
5
300,507,428
0
300,507,428
25%
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).

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Form 1120X (Rev. January 2011) Department of the Treasury Internal Revenue Service	Amended U.S. Corporation Income Tax Return	For t ▶ 12	IB No. 1545-0132 tax year ending /31/2013 month and year.)
Name		Employer ide	entification number
Please TELEXFREE,	LLC		
	froom or suite no. (If a P.O. box, see instructions.)		
ednt 100 HIGH ST	REET #2301		
City or town, state,	and ZIP code	Telephone nu	um)
BOSTON, MA	02110		Exhibit
Enter name and address u	sed on original return (If same as above, write "Same.")		
TELEXFREE I	LC 125 SUMMER ST #1805 BOSTON MA		9
Internal Revenue Service C where original return was f	led	30X 7346	

	Fill in applicable items and use	Part	II on the back to	explain ar	ıy cha	inges
Pa	rt I Income and Deductions (see instructions)		(a) As originally reported or as previously adjusted	(b) Net chang increase or (decre explain in Pa	ease) -	(c) Correct amount
1	Total income	. 1	861,540,104.	306,4	14,049.	1,167,954,153
2	Total deductions	2	2,963,526,039.	-1,792,42	8,035.	1,171,098,004
3	Taxable income. Subtract line 2 from line 1	3	-2,101,985,935.	2,098,84	2,084.	~3,143,851
4	Total tax	. 4				
Pay	ments and Credits (see instructions)					*
	Overpayment in prior year allowed as a credit					
b	Estimated tax payments	5b				
C	Refund applied for on Form 4466	5c				
đ	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	1				
	credits	5g			+	
6	Tax deposited or paid with (or after) the filing of the original	al returr	1		6	15,792,982
7	Add lines Ed through 6, column (a)				7	**
8	Add lines 5d through 6, column (c)	 todiuct		• • • • • • • •	8	15,792,982
·	Overpayment, it any, as shown on original return of as later	aujuşi	eu,		-	
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 ch	eck, make it payable t	to the "United	T	***************************************
	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	Estim:	ated fax 🛌 15,792,982	Refunded >	12	15,792,982
Sig:	Under penalties of perjury, I declare that I have filed an original schedules and statements, and to the best of my knowledged (other than taxpayer) is based on all information of which programs are the properties.	ginel retu ge and ba eparer ha	rn and that I have examined the light, this amended return is the as any knowledge.	his amended return, ue, correct, and corr		accompanying daration of preparer
	Signature of officer		Date	Title	No.	
	Print/Type preparer's name Preparer's signal	lure	1/-1 0	ate /	Check L	if PTIN
Paid	The state of the s	16	edet 3		self-emplo	oyed
	Darer Firm's name ► KPMG LLP				Firm's Ell	N ►
Use	Only Firm's address 60 SOUTH STREET				Phone no) .
	BOSTON, MA		0211	1		7-988-1000
ror P	aperwork Reduction Act Notice, see instructions.				For	rm 1120X (Rev. 1-2011)

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Form 1120X (F	lev. 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	e is due to a net operating loss carryback, a capítal loss carryback, or a general business credit carryback, see
Carry back C	Claims in the instructions, and check here
SEE A	TTACHED STATEMENT

••••	

•	
,	

4	

RECEIVED PSG

MAR 1 2 2018

Megnaga Megan

Taxpayer: EIN:

TelexFree, LLC

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,

Case 18-04091 Doc 54-9 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit

	,	1120	1		U.S. Corpo	ration	lñco	ne Tax Re	turn		*	OMB No. 1545-0123
De		ent of the Treesury	For cal	endar year 2	013 or tax year be	eginning		, endin	g	e/forms	1420	20 13
		evenue Service					parate	nstructions is at w	ww.irs.go	//form		dentification number
	Check	if: blidated return			EXFREE, LLC						B Employer to	Jenuncation number
	(attaci	h Form 851)	TYPE		STEPHEN DA							
	Life/no conso	lidated return	OR	Number, stre	et, and room or suite	no. If a P.O. bo	ox, see in:	tructions.		ı	C Date incorp	orated
	Person	al holding co. Sch. PH)		100 HI	SH STREET #:	2301					07/19	9/2012
3	Person	al service	PRINT		state, or province, c		code or f	neign postal code				s (see instructions)
	, .	see instructions)		р∩ст∩и	, MA 02110			-			\$	95,379,106.
		ule M-3	E Check if:	(1)	Initial return (2)	Tip of w	ntuna (2	X Name change	70		s change	23,372,200.
-				······································		- 1	' i			Audios	Glange	
		Gross receipts					4	1,173,886				
1									3,922.			
ı	C	Balance, Subt	ract line 1b	from line 1a						1c	1,1	70,612,634.
	2	Cost of goods	sold (attacl	Form 1125-	١)					2		2,661,213.
	3	Gross profit. S	Subtract line	2 from line 1	3			CEVED		3	1,1	67,951,421.
٥	4	Dividends (Sc	bedule C. lin	ne 19)			1.00	- 108Q		4		
псоше	5	Interest						. kao		5		2,732.
의										6		
_	6	Gross rents		• • • • • •			· WAR	1.2 2018	• • • •	7		
-	7											
***************************************	8	Capital gain n	et income (attach Schedu	ile D (Form 1120))			6 11		8		
	9	Net gain or (lo	ss) from Fo	orm 4797, P a	t II, line 17 (attach	Form 4797)		ROTALIZA N BEA		9		
	10	Other income	(see instruc	ctions - attach	statement)			ROTABACA		10		
	11	Total income.	Add lines 3	through 10,				6> - 	≯	11	1,1	67,954,153.
	12									12		
<u>;</u>	13									13		119,285.
ö										14		
ᅙ	14										-	06 244 000
deductions.)	15									15		86,344,898.
	16	Rents								16		42,806.
limitations on	17	Taxes and licer	nses				, SEE	SŢĄŢĘŅĘŊŢ	1.1.	17		40,366.
Ë	18							. 		18		15,362.
喜	19	Charitable con	tributions .				. SEE	. STATEMENT	.2	19		NONE
Ξ	20							eturn (attach Form		20		243,373.
힏								•	, -	21	·····	
\$	21											05 E47
悥	22									22		25,547.
instructions	23									23		
ᇷ	24	Employee ben	efit program	s						24		
	25	Domestic prod	luction activ	rities deduction	on (attach Form 89	903)				25		
8	26	Other deduction	ons (attach	statement)			SEE	STĄTĘMĘŅI	1.3.	26	9	84,266,367.
2					26					27	1,1	71,098,004.
힑	28			_				Subtract line 27 from	m line 11	28		-3,143,851.
Deducti					ctions)	•	1 1					
힣		Special deduct					29a					
미							29b			1		
4										29c		
2	30				n line 28 (see instr					30		-3,143,851.
1	31	Total tax (Sche	edule J, Parl	I, line 11)						31		NONE
5	32	Total payment	s and refun	dable credits	(Schedule J, Part I	l, line 21)		<i></i>		32		15,792,982.
Jac.	33	Estimated tax	penaity (se	e instructions). Check if Form 2:	220 is attache	ed		•	33		
	34		,		n the total of lines			ount owed		34		
2	35				the total of lines 3	•				35		15,792,982.
9				•			REI SIIIO		funded 🟲			
	36				2014 estimated tax		ovina sahar			36	viedae and hallof	15,792,982.
91	gn	and complete. C	Declaration of p	preparer (other the	on taxpayer) is based on	alt information of	which biel	ules and statements, and arer has any knowledge.		- ray Kilon		
91	۹"	. <i>IL</i>	. /			1 m/16	` .	لمرير سيسيد	<u>.</u>		May the #	RS discuss this return
He	re	7 / / /	phen	Ja	W 3/	11/10	_ 🕨	1 12050	<u> </u>		— 1	preparer shows below
_		Signature of officer		_	Date	1	· T	tie		,		tions)? X Yes No
			e preparer's n	ame	Preparer's sign	ature	/	Date /		Check	i PTIN	1
Ps	id	JOSEPI	H MIDDL	ETON	(Inel- 6	Wild		3/7/1	P	self-en	nployed	
	epar			MG LLP	7					Firm's	EIN ►	
	e Oi			SOUTH S	TREET:					Phone		A
U	e U	ay Finas add	-									10
Fo	r Pap	erwork Reduction		STON, MA						01/	-988-100	Form 1120 (2013)

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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 Jess-than-20%-owned domestic corporations (other than debt-		70	
financed stock) 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		fortine (fortine	
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	MANAGE THE RESERVE AND AN OUR PROPERTY OF THE
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		100	
11 Dividends from affiliated group members		100	
12 Dívidends from certain FSCs		100	
13 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12		$\dashv \mid$	
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)

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	EXFREE, LLC				
***	1120 (2013)				Page 3
	edule J Tax Computation and Payment (see instructions)				
<u>Par</u>	I-Tax Computation				
1	Check if the corporation is a member of a controlled group (attach Schedule O (Form	1120))	T		
2	Income tax. Check if a qualified personal service corporation (see instructions)		2		
3	Alternative minimum tax (attach Form 4626)		3	3	ONE
4	Add lines 2 and 3		4		ONE
Бa	Foreign tax credit (attach Form 1118)				10112
b	Credit from Form 8834 (see instructions)		1		
	General business credit (attach Form 3800)		1		
d	Credit for prior year minimum tax (attach Form 8827)		1		
e	Bond credits from Form 8912. 59				
6	Total credits. Add lines 5a through 5e		١.		
7	Subtract line 6 from line 4		6		10110
8	Personal holding company tax (attach Schedule PH (Form 1120))		7	<u>D</u>	IONE
_	**************************************	,	-8	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	
h	E		{		
			1		
	Interest due under the took-back method - completed long-term contracts				
	(attach Form 8697)		1		
u	interest due under the look-beck method - income forecast method (attach				
_	Form 8866)				
	Alternative tax on qualifying shipping activities (attach Form 8902) 9e				
f	Other (see instructions - atlach statement)				
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	Ŋ	ONE
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	15,792,9	82.
17	Withholding (see instructions)		17		
18	Total payments. Add lines 15, 16, and 17,		18	15,792,9	82.
19	Refundable credits from:				
а	Form 2439				
	Form 4136				
	Form 8827, line 8c				
	Other (attach statement - see instructions)	· · · · · · · · · · · · · · · · · · ·			
20	Total credits. Add lines 19a through 19d				
	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32.		20	15 200 0	
Sch	edule K Other Information (see instructions)		21	15,792,98	82.
			~		
		Other (specify) >	· · · · · · · ·		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-subsidiary controlled gr	oup?			X
	If "Yes," enter name and EIN of the parent corporation >		.		
4	At the end of the tax year:				
a	Did any foreign or domestic corporation, partnership (including any entity to	eated as a partnersh	ip), tr	ust, or tax-exempt	
	organization own directly 20% or more, or own, directly or indirectly, 50% or more	e of the total voting n	o newc	f all classes of the	1
	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 indirect	ly, 50% or more of the	total	voting power of all	†
	dasses of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule	G (Form 1120) (attach	Schade	de G).	x
			- 41 /441	Form 1120 /	20131

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TELEXFREE, LLC Form 1120 (2013)				
Schedule K Other Information continued (see instructions	1			Page
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 any foreign or domestic corporation not included on Form 851, Affiliations 5 if "Yes," complete (i) through (iv) below.	e total voting power of al	classes of stock entitle	ed to vote of instructions.	Yas No
(i) Name of Corporation	(ii) Employer Identification Number (if any)	(ili) Country of Incorporation	(iv) Pen Owned is	n Voting
TELEXFREE FINANCIAL, INC	more of the total voting power of all classes of stock entitled to vote of filiations Schedule? For rules of constructive ownership, see instruction City Employer City Country of Incorporation City Production (It any)	100		
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of a finduding an entity treated as a partnership) or in the beneficial interest of a lif "Yes," complete (i) through (iv) below.	lerest of 50% or more in a trust? For rules of constru	ny foreign or domestic p ctive ownership, see ins	partnership structions.	x
(i) Name of Entity	Identification Number	(iii) Country of Organization	(iv) Ma Percentage Profit, Less	a Owned in

excess of the corporation's current and accumulated earnings and profits? (S if "Yes," file Form \$452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on At any time during the tax year, did one foreign person own, directly or in classes of the corporation's stock entitled to vote or (b) the total value of all of For rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned 30.00 and (ii) Owner's count (c) The corporation may have to file Form \$472, Information Return of Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 8 Check this box if the corporation issued publicly offered debt instruments with if checked, the corporation may have to file Form \$281, Information Return 9 Enter the amount of tax-exempt interest received or accrued during the tax year Enter the number of shareholders at the end of the tax year (if 100 or fewer) if the corporation has an NOL for the tax year and is electing to forego the car if the corporation is filing a consolidated return, the statement required be or the election will not be valid. Enter the available NOL carryover from prior tax years (do not reduce it by any 3 Are the corporation's total receipts (page 1, line 1a, plus lines 4 through the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L, M-1, and and the book value of property distributions (other than cash) made during the	is es sections 301 and 315.) Form 851 for each subsite indirectly, at least 25% of lasses of the corporation's try BR of a 25% Foreign-Owned 5472 attached horiginal issue discount for Publicly Offered Original issue at the corporation of	U.S. Corporation or all Issue Discount Instrum	a Foreign 1 Inents. 2 Inents. attached	x
If "Yes," complete and attach Schedule UTP. If "Yes," complete and attach Schedule UTP. If "Yes," complete and attach Schedule UTP. If "Yes," did or will the corporation file required Forms 1099? During this tax year, did the corporation have an 80% or more change in own stock? During or subsequent to this tax year, but before the filing of this return, of	Position Statement (see instorm(s) 1099?	nuctions)?	ion of its	X X X
Did the corporation receive assets in a section 351 transfer in which any market value of more than \$1 million?	of the transferred occute	had a fair market has	is or fair	X 20 (2013)

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m 1120 (2013) Chedule L Balance Sheets per Books	Danissis -	Of for		Pa
***************************************	Beginning	Y	End of f	
Assets	(a)	(b)	(c)	(d)
Cash,		1,707,287.		37,640,973
Trade notes and accounts receivable				
Less allowance for bad debts	<u>()</u>		(
Inventories,		: 	1	
U.S. government obligations			4	AAAAAAAAA
Tex-exempt securities (see instructions)				
Other current assets (attach statement),	STMT 4	13,509,841.		29,951,19
Loans to shareholders		12,124.		91,25
Mortgage and real estate loans				***************************************
Other investments (attach statement)		NONE]	27,368,36
Buildings and other depreciable assets	15,121.		258,495.	
Less accumulated depreciation	(599.)	14,522.	(38,550.)	219,94
Depletable assets				
Less accumulated depletion	()		()	
Land (net of any amortization)		***************************************		
Intangible assets (amortizable only)			1	
Less accumulated amortization)		(
Other assets (altach statement)	STMT 4	3,475.	<u> </u>	107,36
Total assets		15,247,249.	İ	95,379,10
Liabilities and Shareholders' Equity			í	33/3/3/10
Mortgages, notes, bonds payable in less				***************************************
Other current liabilities (attach statement).	STMT 4	7,265,686.		E4 610 CO
	DIMI 4		}	54,512,62
Loans from shareholders Mortgages, notes, bonds payable in 1 year		50.	l .	5
or more				
Other liabilities (attach statement).	STMT 4	NONE		61,335,09
Capital stock: a Preferred stock				
b Common stock				
Additional paid-in capital , , ,			[
Retained earnings - Appropriated (attack statement)]		l l	
Retained earnings - Unappropriated , Adjustments to shareholders' equity		7,981,513.		-20,468,669
(attach statement)	ļ		1.	
Less cost of treasury stock		()	l l	(
Total liabilities and shareholders' equity .		15,247,249.		95,379,10
hedule M-1 Reconciliation o	f Income (Loss) per	Books With Income	per Return	
Note: Schedule M-3 r	equired instead of Schedule		nillion or more - see instruction:	8
Net income (loss) per books	-22,177,7	78. 7 Income records	d on books this year	
Federal Income tax per books	. 16,025,3	349. Tax-exempt into	on this return (itemize): erest \$	
Excess of capital losses over capital gain				
Income subject to tax not recorded on books		***************************************		
this year (itemize);		8 Deductions on	this return not charged	
and the pass was the sale and the sale and the typ typ the sale	-1	1	come this year (itemize):	
Expenses recorded on books this year in deducted on titls return (itemize):	ot		\$	205,42
Depreciation , , \$		h Charlishia and	ributions \$	203,42.
Charitable contributions \$	~ 7	500		
Travel and entertainment , \$	-1	607		
SEE STATEMENT 5				CAE IS
Add lines 1 through 5			18	205,42
		28. 10 Income (page 1.	line 28) - line 6 less line 9	-3,143,853
hedule M-2 Analysis of Una	Phiohilaten Ketawe			
Balance at beginning of year		***************************************	Cash	6,272,400
Net income (loss) per books			Stock	
Other increases (itemize):	-	c	Property	· · · · · · · · · · · · · · · · · · ·
~ ·- ·- ·- ·- ·- ·- ·- ·- ·- ·- ·- ·- ·-	_	6 Other decreases	s (itemize):	***
		7 Add lines 5 and	6	6,272,400
Add lines 1, 2, and 3	-14,196,2			

SCHEDULE G

Information on Certain Persons Owning the Corporation's Voting Stock

(Rev. December 2011)	Attach to Form 1120.				
Department of the Treasury Internal Revenue Service					
Name				Employer identification	n number (EIN)
TELEXFREE, LI		N 2			
Part I Certain Ent columns (i) as a partne	DARR, BANKRUPTC ities Owning the Corp through (v) below for a rship), trust, or tax-exer 0% or more of the tota	oration's Voting Sto any foreign or domes mpt organization that	stic corporation, partr t owns directly 20% o	nership (including or more, or owns,	any entity treated directly or
-	e of Entity	(II) Employer Identification Number (if any)	(III) Type of Entity	(Iv) Country Organizatio	of (v) Percentage Owned In Voling Stock
					· ·
			***************************************		·
					-

	,				
Question 41 more, or ov	ividuals and Estates Co. Complete columns vns, directly or indirected to vote (see instructions)	(i) through (iv) below ily, 50% or more of the	v for any individual o	restate that owns	directly 20% or
	(i) Name of Individual or Estate	·············	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see Instructions)	(Iv) Percentage Owned in Voling Stock
CARLOS WANZE	LER			US	50.00
JAMES MERRIL		The second secon		បន	50.00
		W- 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 - 144 -			

		11			
	***************************************	**************************************			
For Paperwork Reduction A see the Instructions for Port 8431ME	ct Notice, m 1120, 362720 1.0 1.592	00 JSA	1	Schedul	G (Form 1120) (Rev. 12-201 6

Form 4	4626	Alternative Minimum Tax - Corporations		OMB No. 1545-0175
	ent of the Treasury	► Attach to the corporation's tax return.		2013
	Revenue Service	▶ Information about Form 4626 and its separate instructions is at www.irs.gov/form4626.		
Name	TELEXFREI	E, LLC HEN DARR, BANKRUPTCY TRUSTEE	ployer	dentification number
-		e instructions to find out if the corporation is a small corporation exempt from the		
		imum tex (AMT) under section 55(e).		
1		e or (loss) before net operating loss deduction	1	-3,143,851.
2		and preferences:		
8	Depreciation of	f post-1986 property	2a	
b	Amortization of	f certified pollution control facilities		
C		f mining exploration and development costs	2c	
ď		f circulation expenditures (personal holding companies only)	2d	- Little
Ð		or loss	2e 2f	***************************************
f g	Merchant mari	tracts ne capital construction funds	2g	
я h	Section 833/h	deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h	
ï		m activities (personal service corporations only)	2i	
i	Passive activit	les (closely held corporations and personal service corporations only)	2]	
		\$,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	2k	
- 1			21	
m	Tax-exempt in	erest income from specified private activity bonds	2m	The control of the co
n	Intangible drilli	ng costs , , , ,	2n	
0	Other adjustm	ents and preferences	20	NONE
3	-	It alternative minimum taxable income (AMTI). Combine lines 1 through 20	3	-3,143,851.
4	•	ent earnings (ACE) adjustment:		
		10 of the ACE worksheet in the instructions 4a -3,143,851.		
Đ		from tine 4a. If line 3 exceeds line 4a, enter the difference amount (see instructions)		
	Multiniu line 4h	by 75% (.75). Enter the result as a positive amount		
			1	
a		ss, if any, of the corporation's total increases in AMTI from adjustments over its total reductions in AMTI from prior		
		ustments (see instructions). Note: You must enter an		
		4d (even if line 4b is positive) 4d		
e	ACE adjustmen			
		zero or more, enter the amount from line 4c	40	
		less than zero, enter the smaller of line 4c or line 4d as a negative amount		
5		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	
~	Alfannativa m	inimum taxable income. Subtract line 6 from line 5. If the corporation held a residual		
7		EMIC, see instructions.	7	-3,143,851.
8		ase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):	<u> </u>	
		,000 from line 7 (if completing this line for a member of a		
-		up, see Instructions). If zero or less, enter -0		
b	Multiply line 8a	by 25% (.25) NONE		
c	Exemption. Su	btract line 8b from \$40,000 (if completing this line for a member of a controlled group,		
	see instruction	s). If zero or less, enter -0-	8c	40,000.
9		c from line 7. If zero or less, enter -0- , , , , , , , , , ,	9	NONE
10		by 20% (.20)	10	NONE
11		nimum tax foreign tax credit (AMTFTC) (see instructions)	11	****
12		mum tax. Subtract line 11 from line 10	12	NONE
13 14		bility before applying all credits except the foreign tax credit	13	
1**		chedule J, line 3, or the appropriate line of the corporation's income tax return	14	NONE
For Pa		on Act Notice, see separate instructions.		Form 4626 (2013)
,				

TELEXFREE, LLC

Adjusted Current Earnings (ACE) Worksheet

Keep for Your Records

-	See	ACE	Worksheet	instructions.
---	-----	-----	-----------	---------------

1	Department May 5		·
2	Pre-adjustment AMTI. Enter the amount from line 3 of Form 4626	. 1	-3,143,851
	ANT deposite of a supering it.		
	AMT depreciation NON	E	
1.	ACE depreciation;		
	(1) Post-1993 property		
	(2) Post-1989, pre-1994 property		
	(3) Pre-1990 MACRS property		
	(4) Pre-1990 original ACRS property		
	(5) Property described in sections (68(f)(1) through		
	(4) ,		
	(6) Other property		
	(7) Total ACE depreciation. Add lines 2b(1) through 2b(6)	2	
	ACE depreciation adjustment. Subtract line 2b(7) from line 2a	Z _C	NONE
3	Inclusion in ACE of items included in earnings and profits (E&P);		1,011
a	Tax-exempt interest income		
Đ	Death benefits from life insurance contracts	7	
¢	All other distributions from life insurance contracts (including surrenders)	٦	
d	Inside buildup of undistributed income in life insurence contracts	1	
0	Other items (see Regulations sections 1.56(g)-1(c)(6)(iii) through (ix) for a partial	1	
	list)		
f	total increase to ACE from inclusion in ACE of items included in E&P, Add lines 3a through 3e	31	
4	Disallowance of Items not deductible from E&P:	-	
a	Certain dividends received.		
b	Dividends paid on certain preferred stock of public utilities that are deductible	1	
	under section 247.		
C	Dividends paid to an ESOP that are deductible under section 404(k)	1	
		1	
đ	Nonpatronage dividends that are paid and deductible under section 1382(c)		
		1	
0	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list)	1	
		1	
f	Total Increase to ACE because of disallowance of items not deductible from E&P. Add lines 4a through 4e	41	
5	Other adjustments based on rules for figuring E&P:		
a	Intangible drilling costs		
b	Circulation expenditures	1	
C	Organizational expenditures]	
d	LIFO inventory adjustments	1	
е	Installment sales	1	
f	Total other E&P adjustments. Combine lines 5a through 5e	5f	
i	Disallowance of loss on exchange of debt pools	6	
	Acquisition expenses of life insurance companies for qualified foreign contracts	7	
	Deptetion	8	
1	basis adjustments in determining gain or loss from sale or exchange of pre-1994 property	9	
0	Adjusted current earnings. Combine fines 1, 2c, 3f, 4f, and 6f through 9. Enter the result here and on line 4s of		
_	Form 4626	10	-3,143,851.

	1125-A December 2012)	Cost of Goods Sold			0110 11 12 12 1	
Intern	tment of the Treasury al Revenue Service	➤ Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-E ➤ Information about Form 1125-A and its instructions is at www.irs.gov/fi	3. orm1	125a.	OMB No. 1545	-2225
Name	TEPEVEKE	E, LLC		Employer i	dentification num	ber
	C/O STEP	HEN DARR, BANKRUPTCY TRUSTEE				
1	Inventory at begin	nning of year	1			
2	Purchases	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	2			
3	Cost of labor,		3			~~~~
4	Additional section	263A costs (attach schedule)	4		***************************************	
5	Other costs (attac	h schedule)	5		2,661,	213.
6	Total. Add lines 1	through 5	6		2,661,	***************************************
7	invantory at end o	fyear , , ,	7			
8	Cost of goods so	old. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the your tax return (see instructions)	8		2,661,	213.
9a	(ii) Cost	s used for valuing closing inventory: cost or market pecify method used and attach explanation.)				
b	Check If there wa	s 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),				_
đ	If the LIFO invent	ory method was used for this tax year, enter amount of closing inventory computed	8d		,	
9	If property is prode	uced or acquired for resale, do the rules of section 263A apply to the entity (see instruction	ns)? .	🗀	Yes	No
f	Was there any cha	ange in determining quantities, cost, or valuations between opening and closing inventory	? If "Y	'es."	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 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 iess 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.

JSA
3X4012 1.000

Form 1125-A (12-2012)

8431ME 1592

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·m 4562		Depred	iation a	nd An	nortiza	ation			OMB No. 1545-01
		(including							2013
Department of the Treasury Internal Revenue Service (99)	▶ :	See separate Instru				ır tax return.			Attachment Sequence No. 17
lame(s) shown on return	TELEXFREE			• • • • • • • • • • • • • • • • • • • •	, , , ,				Identifying number
	C/O STEPH	IEN DARR, BAN	KRUPTCY 7	PRUSTEE	Ē				
dusiness or activity to which thi									
GENERAL DEPRECIAT									
Part Election To	Expense Ce	rtain Property (Inder Secti	on 179				***************************************	
Note: If you f	have any list	ed property, con	nplete Part	V before	you con	piete Part I.			
1 Maximum amount (see	e instructions)							1	500,0
Z TOTAL COST OF SECTION !	is broberry big	iceo in service (see ii	nstructions)					2	243,3
	Cubinant line (ty before reduction :	in limitation (se	e Instructio	ons)			3	2,000,0
4 Reduction in limitation 5 Deliar limitation for tax year, separately, see instructions	Subtract line 4 from	a trom isna 2, ji 2010 (line 1. if zero ar less, enter	of 1955, enter -C -O If married fling)- 		• • • • • • • •		4	
6	(a) Description	of property			usiness use		ected cost	5	500,0
	1-1 0-0-01 1-0-0-0	- proposty		fol cost to	udiliteos ube	(c) ∈	ecied cost		

7 Listed property. Enter t	the amount from	n line 29				7			1
8 Total elected cost of se	ection 179 prop	erty. Add amounts	in column (c), l	ines 6 and	L. 7	<u></u>		8	243,3
9 Tentative deduction. Er	nier the smaller	of line 5 or line 8						9	243,3
o carryover or disallowed	a aeduction tro	m line 13 of your 20	12 Form 4562					10	
 Business Income limita 	ation. Enter the	smaller of busines	s income (noi	t less than	zero) or	ine 5 (see instr	uctions)	11	500,0
2 Section 179 expense d	leduction. Add l	lines 9 and 10, but o	do not enter m	ore than li	ne 11			12	243,3
3 Carryover of disallowed	d deduction to :	2014. Add lines 9 ar	nd 10, less line	12 , , ,	>	13			
ote: Do not use Part II or P	ert ill below for	listed property. Inste	ed, use Pert V.			****************			
		llowance and Ot						(See	instructions.)
4 Special depreciation	allowance for	qualified property	y (other tha	n listed	property)	placed in ser	vice		
during the tax year (see	instructions)				• • • • •			14	
Property subject to sec Other depreciation (inc.)	mon 168(f)(1) e	ection						15	1
	HOMO A CRSS					• • • • • • •			
ant III MACRS Dep	reciation (D					· · · · · · · · · · · · · · · · · · ·		16	
art III MACRS Dep	preciation (D		d properly.)						
MACRS Dep	reclation (D	o not include liste	d property.) Sect	(See inst	ructions.)			16	
7 MACRS deductions for	reciation (D	o not include liste	d properly.) Sect	(See institution A	ructions.)				
7 MACRS deductions for 3 If you are electing to asset accounts, check h	rassets placed group any assets	o not include liste in service in tax yea sets placed in ser	d property.) Sect rs beginning be vice during to	(See instition A efore 2013 he tax ye	ructions.)	e or more gen	eral	16	
7 MACRS deductions for 3 If you are electing to asset accounts, check h	rassets placed group any assets	o not include lister in service in tax yearsels placed in Service	d properly.) Sect rs beginning be vice during to	(See instition A efore 2013 he tax ye	ructions.) ar into on	e or more gen	eral	16	ystem
7 MACRS deductions for 3 If you are electing to asset accounts, check h Section (a) Classification of pr	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include liste in service in tax yea sets placed in ser	d properly.) Sect rs beginning be vice during the	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ar into on	e or more gen	eral epreciat	16	ystem (g) Depreciation dedu
7 MACRS deductions for 3 If you are electing to asset accounts, check h Section (a) Classification of pr	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ructions.) ar into on ar Using t	e or more gen	eral epreciat	16 17 ion S	
7 MACRS deductions for 3 If you are electing to asset accounts, check h Section (a) Classification of property b 5-year property	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ructions.) ar into on ar Using t	e or more gen	eral epreciat	16 17 ion S	
7 MACRS deductions for 3 if you are electing to asset accounts, check in Section (a) Classification of property b 5-year property c 7-year property	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ructions.) ar into on ar Using t	e or more gen	eral epreciat	16 17 ion S	
7 MACRS deductions for 3 if you are electing to asset accounts, check in Section (a) Classification of property b 5-year property c 7-year property d 10-year property	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ructions.) ar into on ar Using t	e or more gen	eral epreciat	16 17 ion S	
7 MACRS deductions for 3 if you are electing to asset accounts, check in Section (a) Classification of property b 5-year property c 7-year property d 10-year property e 15-year property	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ructions.) ar into on ar Using t	e or more gen	eral epreciat	16 17 ion S	
7 MACRS deductions for 3 If you are electing to asset accounts, check h Section (a) Classification of property b 5-year property c 7-year property d 10-year property e 15-year property f 20-year property	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ar Into on ar Using t	e or more gen	eral epreciat	16 17 ion S	
MACRS deductions for a fir you are electing to asset accounts, check he section (a) Classification of property be 5-year property c 7-year property d 10-year property e 15-year property f 20-year property g 25-year property	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ar Into on ar Using t (d) Recove period	e or more gen he General Do	eral preciat	16 17 ion S) ethod	
7 MACRS deductions for 3 if you are electing to asset accounts, check h Section (a) Classification of 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 h Residential rental	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ar Into on ar Using t (d) Recove period 25 yrs. 27.5 yrs.	e or more gen he General Do	eral appreciat n (f) M	16 17 ion S ethod	
7 MACRS deductions for 3 if you are electing to asset accounts, check h Section (a) Classification of program of the section (b) Classification of program of the section o	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ar Into on (d) Recove period 25 yrs. 27.5 yrs. 27.5 yrs. 27.5 yrs.	he General Do	eral appreciat n (f) M	16 17 ion S elhod	
7 MACRS deductions for 3 if you are electing to asset accounts, check h Section (a) Classification of 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 h Residential rental property i Nonresidential real	rassets placed group any assets, , , , , , , , , , , , , , , , , , ,	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis ford (business/nve	(See institution A series 2013 he tax yes 3 Tax Yes depreciation assigned use	ar Into on ar Using t (d) Recove period 25 yrs. 27.5 yrs.	he General Do (y) {e} Convention MM MM MM	eral appreciate f (f) M	16 17 ion Sylvat	
MACRS deductions for a set accounts, check he section (a) Classification of program of the section (b) Classification of program of the section (c) Classification of program of the section (c) Classification of program of the section of the secti	rectation (D	o not include lister in service in tax yea sels placed in service (b) Month and year placed in service	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis for 6 (business/inve only - see ind	(See institution A sfore 2013 he tax year sepreciation sistement use structions)	ar into one of using the control of	he General De (y) {e} Convention MM MM MM MM	epreciate (f) M	16 17 silon S)	(g) Depreciation dedu
MACRS deductions for a set accounts, check he section (a) Classification of program of the section (b) Classification of program of the section (c) Classification of program of the section (c) Classification of program of the section of the secti	rectation (D	o not include lister in service in tex yea sets placed in Service (b) Month and year placed in	d properly.) Sect rs beginning be vice during ti During 2013 (c) Basis for 6 (business/inve only - see ind	(See institution A sfore 2013 he tax year sepreciation sistement use structions)	ar into one of using the control of	he General De (y) {e} Convention MM MM MM MM	eral appreciate f (f) M S S S S S Operecia	16 17 ion Sylvation Sylvation	(g) Depreciation dedu
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	ELEXFREE, LLC rm 4582 (2013)														
F	art V Listed Pro	perty (Include ent, recreation, o	automob	les,	certai	n othe	er ve	hicles,	certair	1 com	puters	, and	prop	erty us	ed f
	Note: For ar 24b, columns	ny vehicle for wi s (a) through (c) of	nich you an Section A, a	e usin	36 60000	o. una i	SECTION	LUITAI	тоисяли						nly 24
	Section A -	Depreciation and	Other Info	rmati	on (Cau	tion: S	ee the	instru	ctions for	limits f	or passe	enger e	utomobi	les.)	
24	a Do you have evidence	to support the but	iness/investm	ent us	e claime	43 1	Yes	No	24b [f"	Yes," is	the evid	ence wr	ilten?	Yes	N
	(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment us percentage	Сов	(d) t or other.		usiness/l	apreciation nvestment	(f) Recovery period	Me	(g) thed/ vention		(h) reciation duction	Electe	(i) d section cost
25	Special depreciation	n allowance for	qualified lis	ted p	roperty	placed	in se	rvice c	lurina		1	-			
26	the tax year and use Property used more	than 50% in a q	in a qualifie ualified busin	ess u	siness u se:	se (see	instru	ctions)	<u></u>	* * * * *	. 25			<u> </u>	
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27	Property used 50%	as lane in a such		6		L									
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28	Add amounts in colu	ımn (h), lines 25	brough 27.	Enter	here a	nd on li	ne 21	page 1	L	1	28	+		-	
29	Add amounts in colu	ımn (i), line 26. E	nter here ar	d on	line 7, p	age 1.		,					29	-	
			Section	nB-	Inform	ation o	on Us	e of Ve	hicles						
Cos	mplete this section for	vehicles used by	a sole propr	letor,	partner,	or othe	er "no o	re than	5% owne	er," or a	related	person.	If you	provided	vehic
	our employees, first ansv	wei the questions in	Section C to			T		o comp		T		e vehici	es.		
30	Total business/inves the year (do not incli	tment miles drive	en during		a) ide 1		(b) Icle 2	V	(c) shide 3		(d) ricle 4	Ve	(e) hide 5		f) Icle 6
21	Total commuting mil					<u> </u>				 		<u> </u>		ļ	
		es unven during i rsonal (noncor				-			······································		************************	 		-	
• • •	miles driven														
33	Total miles driven lines 30 through 32	during the ye	ar. Add		The College Subsequence and		******					 			
34	Was the vehicle	available for	personal	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
	use during off-duty h	ours?	[<u> </u>			 	1.00	1	1	110
35	Was the vehicle us	sed primarily by	a more						T			1		1	
	than 5% owner or rel	lated person?													
36	Is another vehicle use?	available for	personal												
	Sect	ion C - Questio	ns for Emp	loye	rs Who	Provi	de Ve	hicles	for Use	by Th	eir Em	plove	es	<u> </u>	L
Ans no	wer these questions te than 5% owners or	to determine if v	ou meet an	exce	ption to	comp	leting	Section	n B for v	ehicles	used t	y emp	loyees 1	who are	not
37	Do you maintain a your employees?	written policy st	tatement th	at pro	ohibits	all pers	sonal	use of	vehicles	includ	ling co	mmuti	ng, by	Yes	No
8	Do you maintain a	written policy si	latement the	at pro	phibits	person	al use	of ve	hicles, ex	xcept o	ommu	ting, b	y your	<u> </u>	
19	employees? See the	of vehicles by emi	enicies used Anvese se so	Dy Co	orporate	office	rs, aire	ctors, c	or 1% or i	nore or	wners				
0	Do you treat all use of Do you provide more	re than five veh	icles to voi	Ji em	inlovee	obte	in info	matic	n from	OBE OF	nnlover		ut the	ļ	
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11	Do you meet the requirement of t	uirements concer	ning qualifie	d auto	omobile	demoi	nstratio Sectio	on use?	(See ins	truction	is.)				
	rtVI Amortizatio	n				11101010		11 2 101	110 0010	100 1011	iojos.	·····	***************************************	L	
ra	(a)	osis	(b) Date amortiza	illon	۸۰۰	(c) onizable	Amount		(d)		e) Amodia	ation	mote odor socor socor	(f)	
ra	Description of co		begins						Code sec	AUGI I	perior percen		Amortiza	ition for th	is year
		that begins durin	d vour 2015	tax	/ear fee	a inetru	ctione	١٠				************			
	Amortization of costs	that begins durin	g your 2013	taxy	year (se	e instru	ctions):							
2	Amortization of costs					e instru	ctions): 							
2		that began before	e your 2013	tax v	ear):	,			43			

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE PAYROLL TAX EXPENSE TAXES AND LICENSES

23,404. 15,664. 1,298.

TOTAL

40,366.

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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)

-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%)6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS

NONE 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.
		=======================================		

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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 SEE STATEMENT 3A FOR DETAIL	972,955,648.
WEBSITE DOMAIN	780.
TRAVEL MEALS	22.
TOTAL	984,266,367.

Taxpayer:

TelexFree, LLC

EIN:

Telexpree, LLC

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
\$61,335,098	Credits outstanding EOY

STATEMENT 3A

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

OTHER CURRENT ASSETS	BEGINNING	ENDING
PROPERTY ON HOLD LOAN FROM TELEXFREE INC LOAN TO YMPACTUS LOAN TO TELEXELECTRIC LLP LOAN TO TELEXFREE FINANCIAL LOAN TO TELEXMOBILE PREPAID EXPENSES LOAN TO TELEXFREE LLC	938,871. 701,525. 11,869,445. NONE NONE NONE NONE	16,222,365. NONE NONE 2,022,329. 4,105,475. 500,870. 1,709,402. 5,390,753.
TOTAL	13,509,841.	29,951,194.
SCH L, LINE 14 - OTHER ASSETS		
ORGANIZATIONAL COSTS SOFTWARE SECURITY DEPOSITS	3,475. NONE NONE	3,475. 97,949. 5,944.
TOTAL	3,475.	107,368.
SCH L, LINE 18 - OTHER CURRENT LIABILITIES		.
ACCRUED FEDERAL INCOME TAX ACCRUED STATE TAX BRAZILLIAN HELP INC LOAN TO/FROM TELEXFREE LLC OTHER CURRENT LIABILITIES TELECOM TAXES PAYABLE COMMISSIONS PAYABLE	4,624,801. 843,429. 2,672. 701,525. 1,093,259. NONE	19,964,029. 3,812,940. 2,672. 5,390,753. 17,676,275. 23,404. 7,642,550.
TOTAL	7,265,686.	54,512,623.
SCH L, LINE 21 - OTHER LIABILITIES		
ACCRUED ADVERTISING CREDITS	NONE	61,335,098.
TOTAL	NONE	61,335,098.

STATEMENT 4

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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 LOSS ON INVESTMENT PENALTIES

2,969,511. 48,663. 186,720.

TOTAL

3,204,894.

Case 18-04091 Doc 54-9 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 9 Form 1120X for 2013 Page 21 of 22

TELEXFREE, LLC

FORM 4626 DETAIL		,	
1. AMTI (EXCLUDING DOMESTIC PRODUCTION OF THE PR	CONTRIBUTIONS AND CTION ACTIVITIES DEDUCTOVER	CTION) S, SPECIAL IVITIES DEDUCTION, RRYBACKS	-3,143,851. -3,143,851. NONE
			7,500.
7. CONTRIBUTION DE	DUCTION (LESSER OF L)	NE 5 OR LINE 6)	none
5 YEAR CONTRIBUTION	S CARRYOVER		
	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL	7,500.	NONE	7,500.
LINE 20 - CONTRIBUT	IONS ADJUSTMENT		
REGULAR CONTRIBUTIONS	NS		NONE NONE
CONTRIBUTION ADJUST	MENT		NONE

STATEMENT

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TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

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

TOTAL

45,930. 513,198. 2,102,085.

2,661,213.

STATEMENT 7

PAGE 2 OF 16 Case 18-04091 Doc 54-10 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 10 IRS Notices of Proposed Adjustment for 2014 Page 1 of 14

2	20 11 (0 1101100	20 of 1 repeded 7 tajaotiment for 2021	r age i er	- · ·
Form 5701	Department of the Treasury - Internal Revenue Service			
(Rev.Aug.1980)	Aug. 1980) NOTICE of PROPOSED ADJUSTMENT			
Name of taxpayer				Issue No.
Telexfree, LLC			**************************************	001
Name and title of	person to whon	<u>n delivered</u>		Date:
Stephen Darr, Bar	kruptcy Truste	е		11/07/2017
Entity for this pro	posed adjustme	<u>ent</u>		
Telexfree, LLC	1			
		have available and our discussions		
the proposed adju	istments listed	below should be included in the reve	nue agent'	s report.
However, if you have additional information that would alter or reverse this proposal, please				
furnish this inform	nation as soon a	as possible.	Ni (dani)	
Years	Amount	Account or Return Line	Sain	Issue
			No.	Code
201412	2,442,705,606	Advertising Credit Expense	523	
		ISSUE	<u> </u>	
SEE ATTACHED FORM 886-A Exh				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.

EXHIBIT (M)

Response due by: November 15, 2017

Taxpayer Representative's action				
Name:()Agreed in Part ()Disa	Title: greed ()Will:	Date: submit more information by:		
Revenue Agent			<u>Date</u>	
Christine DeRosa, 1033183		Workpaper G-2/1	11/07/2017 Form 5701	

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Rev April 1968		
Name of Taxpayer		Year/Period Ended
Telexfree, LLC		201412

	<u>201412</u>	
Other Deductions – Per line 26 of Return	2,450,046,128	
Other Deductions – Corrected	7,340,522	
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 form 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 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 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	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Rev April 1968		
Name of Taxpayer		Year/Period Ended
Telexfree, LLC		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	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Rev April 1968		
Name of Taxpayer		Year/Period Ended
Telexfree, LLC		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 VolP 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 VolP product had no reasonable possibility of inducing people to purchase the taxpayer's VolP service and that the

continued footnote

⁵ <u>Id</u> at 2.

⁴ <u>Id</u> 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."

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Rev April 1968		
Name of Taxpayer		Ycar/Period Ended
Telexfree, LLC		201412

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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Rev April 1968		
Name of Taxpayer		Year/Period Ended
Telexfree, LLC		201412

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	EXPLANATION OF ITEMS	Schedule No. or Exhibit
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Name of Taxpayer		Year/Period Ended
Telexfree, LLC	· · · · · · · · · · · · · · · · · · ·	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	EXPLANATION OF ITEMS	Schedule No. or Exhibit
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Telexfree, LLC		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 afterthe-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.

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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.

11/06/2017 5:18:47 PM -0500 IRS PAGE 11 OF 16 Case 18-04091 Doc 54-10 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 10 IRS Notices of Proposed Adjustment for 2014 Page 10 of 14

Form 886-A Rev April 1968	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Name of Taxpayer		Year/Period Ended
Telexfree, LLC		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.

11/06/835 18-04091 Proc 054-10 IRS Notices of Proposed Adjustment for 2014 Page 11 of 14

Form 5701	Form 5701 Department of the Treasury - Internal Revenue Service								
(Rev.Aug.1980) NOTICE of PROPOSED ADJUSTMENT									
Name of taxpayer									
Telexfree, LLC 002									
Name and title of p	erson to whom	n delivered		Date:					
Stephen Darr, Ban				11/07/2017					
Entity for this prop									
Televiree IIC									
Based on the infor	mation we now	have available and our discussions	with you,	we believe that					
the proposed adjus	stments listed	below should be included in the rev	enue agent	's report.					
However if you ha	ve additional in	nformation that would alter or revers	e this prop	osal, please					
furnish this inform	ation as soon a	as possible.							
Years	Amount	Account or Return Line	Sain	Issue					
rears	Amount		No.	Code					
201412		Failure to File Penalties	005						
201412									
		ISSUE							
		SEE ATTACHED FORM 886-A							
		ONS FOR PROPOSED ADJUSTMEN	т						
	レドハウ	ロバス ドロド ちゃいたいシドロ せいさいシ ロベドバ	i						

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 act	ion		
Name: ()Agreed ()Agreed in Part	Title: ()Disagreed ()Will su	Date: bmit more information by:	
Revenue Agent		<u>Date</u>	
Christine DeRosa, 1033183	·	11/07/2017	********

10 IRS Notices of Proposed Adjustment for 2014 Page 12 of 14

Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Rev April 1968 Name of Taxpayer		Year/Period Ended
Telexfree, LLC		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.

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orm 5701 Department of the Treasury - Internal Revenue Service							
(Rev.Aug.1980) NOTICE of PROPOSED ADJUSTMENT							
Name of taxpayer				Issue No.			
Telexfree, LLC				003			
Name and title of p	erson to whom de	livered		Date:			
Stephen Darr, Ban				11/07/2017			
Entity for this prop							
Telexfree LLC							
Based on the infor	mation we now ha	ve available and our discussions	with you, v	we believe that			
the proposed adju	stments listed belo	ow should be included in the reve	nue agent'	s report.			
However, if you ha	ve additional infor	mation that would alter or reverse	e this prop	osal, please			
furnish this inform	ation as soon as p	ossible.					
Years	Amount	Account or Return Line	Sain	Issue			
i cui s	/ H1100111		No.	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:(_)Agreed in Part (Title:)Disagreed())W	Date:		
Revenue Agent			<u>Date</u>	
Christine DeRosa, 1033183		Workpaper G-2/1	11/07/2017 Form 5	701

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Form 886-A	EXPLANATION OF ITEMS	Schedule No. or Exhibit
Rev April 1968		
Name of Taxpayer		Year/Period Ended
Telexfree, LLC	·	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 it's 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	<u>.</u>	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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PSC

MAR 1 2 2018

\$ 230 \$

MEGINENCY

BY CERTIFIED MAIL

March 7, 2018

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

Taxpayer:

TelexFree, LLC

EIN:

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

MAR 28 707

Exhibit

11

- 3) Debtor's name: TelexFree, LLC
- 4) Debtor's EIN:

4 BTT

- 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

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

Case 18-04091

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Rev.	Jan	uar	y 2	011)

Amended U.S. Corporation Income Tax Return

OMB No. 1545-0132

For tax year ending ▶ 12/31/2014

	nal Revenu	e Service							er month and year.)
	Name							Employer k	dentification number
Pleas		XFREE,							
Type	I		d room or suite no. (If a P.0						
Print			DARR, BKR TI	EE 100 HIGH	H ST	42301		T-1	
	i i	town, state,	and ZIP code			00110		relephone i	number (optional)
Ente		ON, MA	used on original return (If s	ame as above write "	Came !!	02110		***	
Line			STREET #1805	*		•			
Inter		nue Service C		BOSION, MA	021	πο			
		i return was fi		IZED INSOLV	/ENC	Y OPERATION I	PO BOX	7346	
		Fi	ll in applicable it	ems and use	Part	Il on the back to	explain	any cha	inges
Ра	rt I	Income a	nd Deductions (se	e instructions)	т	(a) As originally reported or as previously adjusted	(b) Net o increase or explain	(decrease) -	(c) Correct amount
1	Total in	ncome ,,,			1	161,550,353.	1,90	14,302,125.	2,065,852,478.
2	Total d	eductions .			2	2,450,176,063.	15	1,270,563.	2,601,446,626.
3	Taxable	e income. S	ubtract line 2 from line	1	3	-2,288,625,710.	1,75	3,031,562.	-535,594,148.
4	Total ta	ax			4				
Pay	ments	and Cred	dits (see instruction	ns)					
5a	Overpa	ayment in pr	ior year allowed as a c	redit	5a				
b	Estima	ted tax payn	nents		5 b				
C	Refund	l applied for	on Form 4466		5c				***************************************
d	Subtra	ct line 5c fro	m the sum of lines 5a	and 5b	5d		~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~		
			Form 7004		5e				
			2439		5f				***************************************
g			tax on fuels and		5g				
6	Tax de	posited or p	aid with (or after) the f	iling of the original	return			6	
7			gh 6, column (c)					7	
8	Overpa	vment, if an	y, as shown on origina	al return or as later:	adiush	M PEller		8	
•	010.50	ymon, nam	i, ao ano ini an ang an	ar rotain or ab later	uujuuş	aneciaell.			
9	Subtrac	ct line 8 fron	n line 7			Man an ann		9	
Tax	Due or	Overpayn	nent (see instructions)			Mine 20 0 150			
10	Tax du	e. Subtract	line 9 from line 4, col	umn (c). If paying	by ch	eck, make it payable	to the "Uni	ted	
		Treasury" .			-			▶ 10	
11 12			otract line 4, column (c) of line 11 you want: Cre					► 11 ► 12	
 -								- 1	accompanying
Sig		schedul (other th	enalties of perjury, I declare es and statements, and to the nan taxpayer) is based on all	he best of my knowledge I information of which pre	e and be parer ha	elief, this amended return is tr as any knowledge.	ue, correct, and	d complete. De	claration of preparer
Her	e	Signatur	tysken 1	an		3/7/18	Title	RUS	tie
		, -	reparer's name	Preparers/signatu	ırg,		ate ∠ / _	Ob. r=4	, PTIN
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Pre	oarer	Firm's name	► KPMG LLP	777-1				Firm's E	· · ·
	Only	Firm's address	60 SOUTH S	TREET				Phone n	
			BOSTON, MA			0213	11	61	7-988-1000
For P	aperwor	k Reduction	Act Notice, see instruction	ns.				Fo	om 1120X (Rev. 1-2011)

For Paperwork Reduction Act Notice, see instructions.

JSA 4C1820 1.000

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Form 1120X (R	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 Attain the instructions.)	ach
f the change	e is due to a net operating loss carryback, a capital loss carryback, or a general business credit carryback, see	
Carry back C	Claims in the instructions, and check here	▶ □
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AMENDE	ED RETURN CHANGES SEE STATEMENT 1	
	5 1120V /D	

JSA 4C1830 1.000 Taxpayer: TelexFree, LLC EIN:

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.

Case 18-04091 Doc 54-11 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit

** 11 Form 1120X for 2014 Page 6 of 22 PRINTATION

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De	partme	ent of the Treasury	Porca	enuar year 20 Linformation	ahout Form	ar Degini 1120 ar	iing id its so	narate inst	uctions is at www.ir	s aov/forn	1120.	2014
	ernal R Check	evenue Service	<u> </u>				iu its se	parate mou	uctions is at www.ii	s.gomon		entification number
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1	(attaci	h Form 851)	TYPE		STEPHEN	***					C Beta lesser	and a
	conso	lidated return	OR	Number, stree	et, and room or	suite no. If	a P.O. bo	x, see instruc	lions.		C Date incorpo	
2	erson (attach	al holding co. Sch. PH)	PRINT		H STREET						07/19	/2012
3		al service ree instructions)	T IXIIV	City or town,	state, or provin	ce, country	and ZIP	or foreign pos	tat code		D Total assets	(see instructions)
		ule M-3		BOSTON,	MA 0211	.0					\$	NONE
4			E Check if:	(1)	Initial return	(2)	Final re	turn (3)	Name change (4)	Addre	ss change	
_	1a	Gross receipts	or sales		·			1a	2,067,416,94	5.		
									/ED 1,4	25354253	approximate the second	
		Polongo Cubi	root line th	from line 1a				1 10 3 1 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	171	1c	*	7,415,520.
	- 6	marance, Subt	Jack IIIIe sp	nomme ia				· · · •	3	. 2	2,00	
	2	Cost of goods	sold (attacr	n Form 1125-A)				st	. 2		1,563,042.
	3	Gross profit. S	Subtract line	e 2 from line 1c				MAR 1-2	2018	. 3	2,00	55,852,478.
ne	4	Dividends (Sc	hedule C, Iir	ne 19)				Blustie		. 4		***************************************
Income	5	Interest					. .		96 · · · · · · · · ·	. 5		
=	6	Gross rents						₩ A	Λεμίολ. 3.0	, 6		
	7	Gross royalties						MGOL'	Kenca.	7		
	8	Capital gain no	et income (attach Schedu	le D (Form 11	20))				. 8		
	9											
i	10		•	,								
	11										2.06	55,852,478.
_	12											
7												19,170.
50	13								. <i>.</i>			
访	14									- 1		990.
ő	15											
P	16	Rents								. 16		30,763.
0	17	Taxes and lices	nses					SEE S	TATĖŅĖŅT 1	. 17		61,291.
5	18											
tat	19	Charitable con	tributions.					SEE. S	TATEMENT .2	. 19		NONE
Ē	20								n (attach Form 4562)			
ō	21											
2	22									1		17,721.
ē										. —		17,721.
5	23									1	 	
ıst	24								<i></i>			
(See instructions for limitations on deductions.)	25	Domestic prod	luction activ	vities deductio	n (attach Forr	n 8903),			<u> </u>	. 25		
	26								TÄTĖMĖNT 3		 	01,316,691.
Suc	27										2,60	1,446,626.
읡	28	Taxable incom	e before ne	et operating lo	ss deduction	and spec	cial dedu	ctions. Sub	tract line 27 from line	11 28	-53	35,594,148.
Deduction	29 a	Net operating	loss deduct	ion (see instru	ctions)			29a	· · · · · · · · · · · · · · · · · · ·			
å	b	Special deduct	tions (Schee	dule C, line 20)				29b				
	С	Add lines 29a	and 29b .	<u></u>						29¢		
	30	Taxable incom								. 30	-53	35,594,148.
P .	31	Total tax (Sche								. 31		NONE
Credits,	32	Total payment								32		
	33	Estimated tax								33		
Refundable Paym									. , . , >		 	NONE
	34	Amount owed								34		anon.
ř	35	Overpayment.		•			d 33, en	ter amount o	,	35		
ᆚ	36	Enter amount from							Refunde	, , ,	1	
e:	gn	and complete. C	or perjury, r d Declaration of p	eciare mai i nave e preparer (other tha	rxammed tos retui n taxpayer) is base	m, including ed on all info	rmation of	ying schedules which preparer i	and statements, and to the has any knowledge.	pest of my kin	owiedde aug petiet	it is true, correct,
31	9" ,	14	1			/	1	/ 1			May the IR	S discuss this return
He	ere	Sty	ohen	Las		3/1	118	_ • _ 7	MUS We		with the pr	eparer shown below
_		Signature of officer			Da	ne/		Title	` V ?			ens)? X Yes No
	-		e preparer's n	ame	Prepareds	signature	/		Date 4 (C)	Chec	k if PTIN	
Pá	id	JOSEPH	H MIDDL	ETON	(hell)	11/12	dil	~	1 <i>3/7/18</i>	self-c	employed	
	epar	-		PMG LLP	117				·	Firm's	s EIN 🕨	
	ie Or			SOUTH S	PREET					Phon		
3				STON, MA						67	7-988-100	n
Fo	r Par	erwork Reduc	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~	·····		ons.				101		Form 1120 (2014)
JS/		o, Hoin House	MULTIN	, ass aspe	monuel	J.10.						(EV19)
4C	11102	000										

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TELEXFREE, LLC Form 1120 (2014)			Page 4
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) 2 Dividends from 20%-or-more-owned domestic corporations (other than debt-		70	
financed stock)			
		80	
3 Dividends on debt-financed stock of domestic and foreign corporations		matrockens	
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 utäities		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			
Dividends from domestic corporations received by a small business investment			
company operating under the Small Business Investment Act of 1958		100	
1 Dividends from affiliated group members		100	
2 Dividends from certain FSCs		100	
3 Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
4 Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
5 Foreign dividend gross-up			
B IC-DISC and former DISC dividends not included on lines 1, 2, or 3,			
7 Other dividends			
Deduction for dividends paid on certain preferred stock of public utilities . , , ,			· · · · · · · · · · · · · · · · · · ·
Total dividends. Add fines 1 through 17. Enter here and on page 1, line 4			
Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1,	line 29b		

Form 1120 (2014)

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	EXFREE, LLC 1120 (2014)			Page (
Sci	nedule J Tax Computation and Payment (see instructions)	·	···	raje i
Par	I-Tax Computation			
1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)).		TEVAL	
2	Income tax. Check if a qualified personal service corporation (see instructions).	. •		
3	Alternative minimum tax (attach Form 4626)		2	270110
4	Add lines 2 and 3		3	NONE
58	Constant Acres 196 (1) 1 mg and 1 and		4	NONE
b	A		- 1	
c	Depart by the second se		-	
	One alls for a side of the sid	····	- 1	
8	S 1 11 11 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		-	
6	Total credits. Add lines 5a through 5e		4 .	
7	Subtract line 6 from tine 4		6	
8	Subtract line 6 from line 4	• • • • •	7	NONE
9a	Personal holding company tax (attach Schedule PH (Form 1120)).		8	
	The state of the s		-	
	Recapture of low-income housing credit (attach Form 8611)	· · · · · · · · · · · · · · · · · · ·	- 1	
·				
4	(attach Form 8697). 9c Interest due under the look-back method - income forecast method (attach		- 1	
u				
_	Form 8866) 9d		-	
	Alternative tax on qualifying shipping activities (attach Form 8902) 9e		-	
f	Other (see instructions - attach statement).		1	
10	Total. Add lines 9a through 9f		10	
11 22 rt	Total fax. Add lines 7, 8, and 10. Enter here and on page 1, line 31		11	NONE
	il-Payments and Refundable Credits		1	· · · · · · · · · · · · · · · · · · ·
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:			
	194			
	Form 4136			
	Form 8827, line 8c			
	Other (attach statement - see instructions),			
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	
	dule K Other Information (see instructions)			
1	Check accounting method: a Cash b X Accrual c Other (spec	alfy) ▶		Yes No
2	See the instructions and enter the:			
a	Business activity code no. > 454390			
	Business activity ► DIRECT SALES			
	Product or service COMMUNICATIONS			
3	is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?			<u> x</u>
	If "Yes," enter name and EIN of the parent corporation	~~~~~		
	At the end of the tax year:			
a	Did any foreign or domestic corporation, partnership (including any entity treated as	a partnersh	ip), trust,	or tax-exempt
	organization own directly 20% or more, or own, directly or indirectly, 50% or more of the t	olal voting p	ower of all	classes of the
	corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach S	Schedule G)		X
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% o	r more of the	total votin	g power of all
	classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form	120) (attach	Schedule G	Х Х
				Form 1120 (2014)
				4 4 / 4

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b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of (including an entity treated as a partnership) or in the beneficial interest of a trust? If "Yes," complete (i) through (iv) below. (i) Name of Entity Iden (ii) Name of Entity Iden This is a consolidated return, answer here for the parent corporation and on Form of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation as section 318. If "Yes," enter: (i) Percentage owned ▶ 30.000 and (ii) Owner's country ▶ (c) The corporation may have to file Form 5472, Information Return of 2.25 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 as Check this box if the corporation issued publicly offered debt instruments with opinion.	(ii) Employer number (iii any) of 50% or more in a For rules of construit) Employer (iii any) dends and distributions 301 and 316.) 351 for each subsicity, at least 25% of the corporation's	(iii) Country of Incorporation US any foreign or domestic partitive ownership, see ins (iii) Country of Organization utions in exchange for) diary. (a) the total voting porestock?	a instructions (iv) Provined S 100 partnership structions. (iv) M Percental Profil, Los	Freentages fock	XX
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total any foreign or domestic corporation not included on Form 851, Affiliations Schedulif "Yes," complete (i) through (iv) below. (i) Name of Corporation (ii) Name of Corporation (including an entity treated as a partnership) or in the beneficial interest of a trust? If "Yes," complete (i) through (iv) below. (i) Name of Entity (ii) Name of Entity (iv) Name of E	(ii) Employer number (iii any) of 50% or more in a For rules of construit) Employer (iii any) dends and distributions 301 and 316.) 351 for each subsicity, at least 25% of the corporation's	(iii) Country of Incorporation US any foreign or domestic partitive ownership, see ins (iii) Country of Organization utions in exchange for) diary. (a) the total voting porestock?	a instructions (iv) Provined S 100 partnership structions. (iv) M Percental Profil, Los	s. X Broentage I in Voting took 000 aximum gs, or Cap	y X
to Own directly an interest of 20% or more, or own, directly or indirectly, an interest of (Including an entity treated as a partnership) or in the beneficial interest of a trust? If "Yes," complete (i) through (iv) below. (i) Name of Entity Identity Identity Identity 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 of At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes of For rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned > 30.000 and (ii) Owner's country corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 and Check this box if the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporation issued publicly offered debt instruments with original and considered the corporatio	of 50% or more in a For rules of constru III) Employer III Catton Number (If any) dends and distributions 301 and 316.) 351 for each subsicity, at least 25% of of the corporation's	Incorporation US any foreign or domestic public ownership, see ins (iii) Country of Organization utions in exchange for) diary. (a) the total voting porestock?	Owned S 100. 100. partnership structions. (iv) M Percental Profil, Los stock) in	aximum ge Owners, or Cap	y X
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of (Including an entity treated as a partnership) or in the beneficial interest of a trust? If "Yes," complete (i) through (iv) below. (i) Name of Entity Iden During this tax year, did the corporation pay dividends (other than stock diviexcess of the corporation's current and accumulated earnings and profits? (See sectlif "Yes," file Form 5452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form of At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes of For rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned > 30,000 and (ii) Owner's country > (c) The corporation may have to file Form 5472, Information Return of a 25 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 a Check this box if the corporation issued publicly offered debt instruments with opinions.	of 50% or more in a For rules of constru For rules of constru III) Employer III Cation Number (II any) dends and distributions 301 and 316.) 351 for each subsicity, at least 25% of of the corporation's	utions in exchange for) diary. (a) the total voting powers and the stock?	100. partnership structions. (iv) M Percental Profit, Los	aximum ge Owners, or Cap	d in bital
If "Yes," complete (i) through (iv) below. (i) Name of Entity Iden During this tax year, did the corporation pay dividends (other than stock diviexcess of the corporation's current and accumulated earnings and profits? (See sectif "Yes," file Form 5452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form of At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes for rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned 30.000 and (ii) Owner's country (c) The corporation may have to file Form 5472, Information Return of a 25 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 a 8 Check this box if the corporation issued publicly offered debt instruments with positions.	For rules of constru III) Employer III(cation Number (If any) dends and distribu- tions 301 and 316.) 351 for each subsid- ly, at least 25% of of the corporation's	(iii) Country of Organization utions in exchange for) diary. (a) the total voting porestock?	(iv) M Percentag Profit, Los	ge Owner	d in bital
(i) Name of Entity 6 During this tax year, did the corporation pay dividends (other than stock diviexcess of the corporation's current and accumulated earnings and profits? (See sectif "Yes," file Form 5452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form of At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes for rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned 30.000 and (ii) Owner's country (c) The corporation may have to file Form 5472, Information Return of a 25 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 at 8 Check this box if the corporation issued publicly offered debt instruments with order as 1 to 1 to 1 to 1 to 1 to 1 to 1 to 1 t	dends and distributions 301 and 316.) 551 for each subsider, at least 25% of of the corporation's	(iii) Country of Organization utions in exchange for) diary. (a) the total voting porestock?	(IV) M Percentag Profit, Los	ge Owner	d In
6 During this tax year, did the corporation pay dividends (other than stock diviexcess of the corporation's current and accumulated earnings and profits? (See sect if "Yes," file Form 5452, Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the perent corporation and on Form of At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes of For rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned > 30.000 and (ii) Owner's country (c) The corporation may have to file Form 5472 , Information Return of a 25 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 a Check this box if the corporation issued publicly offered debt instruments with pricing the corporation of the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments with pricing the corporation issued publicly offered debt instruments.	dends and distributions 301 and 316.) 351 for each subsidity, at least 25% of the corporation's	Organization utions in exchange for) diary. (a) the total voting pore	Percental Profit, Los	ge Owner	d In Sital
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 (At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes for rules of attribution, see section 318. If "Yes," enter: (i) Percentage owned 30.000 and (ii) Owner's country (c) The corporation may have to file Form 5472, information Return of a 25 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 a 8 Check this box if the corporation issued publicly offered debt instruments with possible process.	ions 301 and 316.) 351 for each subsic ly, at least 25% of of the corporation's	diary. (a) the total voting porestock?	• • • • •		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 of At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes for rules of attribution, see section 318. If "Yes," enter: (i) Percantage owned 30.000 and (ii) Owner's country (c) The corporation may have to file Form 5472, information Return of a 25 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 a Check this box if the corporation issued publicity offered debt instruments with possible process.	ions 301 and 316.) 351 for each subsic ly, at least 25% of of the corporation's	diary. (a) the total voting porestock?	• • • • •		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 of At any time during the tax year, did one foreign person own, directly or indirect classes of the corporation's stock entitled to vote or (b) the total value of all classes of attribution, see section 318. If "Yes," enter: (i) Percentage owned 30.000 and (ii) Owner's country (c) The corporation may have to file Form 5472, information Return of a 28 Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 a 8 Check this box if the corporation issued publicity offered debt instruments with possible process.	ions 301 and 316.) 351 for each subsic ly, at least 25% of of the corporation's	diary. (a) the total voting porestock?	• • • • •		х
If checked, the corporation may have to file Form 8281, Information Return for Public Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ If the corporation has an NOL for the tax year and is electing to forego the carryback If the corporation is filing a consolidated return, the statement required by Regular the election will not be valid. Enter the available NOL carryover from prior tax years (do not reduce it by any deduct Are the corporation's total receipts (page 1, line 1a, plus times 4 through 10) for the tax year less than \$250,000? If "Yes," the corporation is not required to complete Schedules L. M-1, and M-2. In and the book value of property distributions (other than cash) made during the tax year is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position If "Yes," complete and attach Schedule UTP. Did the corporation make any payments in 2014 that would require it to file Form(s) to if "Yes," did or will the corporation file required Forms 1099? During this tax year, did the corporation have an 80% or more change in owners own stock? During or subsequent to this tax year, but before the filling of this return, did the of its assets in a taxable, non-taxable, or tax deferred transaction? Did the corporation receive assets in a section 351 transfer in which any of the market value of more than \$1 million?	if Foreign-Owned ttached late of the component of the com	al Issue Discount Instrum Iss	end of ributions	X	X X

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TELEXPREE, LLC					
	Bealnning	of tax v	aat	End o	Page f tay years
Assets		Τ		***************************************	(d)
Cash		1		the contract of the contract o	(0)
Trade notes and accounts receivable					
	(7		/	-
		1			4
U.S. government obligations				-	
		-			
	STMT 4	-	29.951.194	-	NON
					NONI
			22/22/1		NON
			27.368.369.	-	NON
Buildings and other depreciable assets	•	-		NOME	NONI
		1	219.945	The same of the sa	NON!
Depletable assets	1		227,2301	NONE) NON
Less accumulated depletion	(1	7
		1			4
Intangible assets (amortizable only)					
	(1		/	-
	STMT 4		107.369		330
					NONE
			33,379,100.	"	NONE
Accounts appoints					
Mortgages, notes, bonds payable in less		}		-	
olds 1 year	ያጥ ਆ ጥ		54 532 622	-	
Loans from shareholders	01111 4		***************************************	-	NONE
Mortgages, notes, bonds payable in 1 year			30.	-	NONE
Ormore	отмт <i>А</i>		61 225 000	-	
	DIMI 4		01,333,090.	-	NONE
					-
				~~~~~	
				_	
			20 160 666	4	
Adjustments to shareholders' equity			20,400,000.	-	NONE
(attach statement)					
		<u> </u>	05 270 100	<u>)</u>	(
edule M-1 Reconciliation of	f Income (Lose) nor	Pools	93,379,106.		NONE
Note: The corporation	n may be required to file Sch	DOOK!	5 VVIIII INCOME	per Keturn	
			7 Income records	ed on books this year	
			not included	on this roturn ditemirated	
Excess of capital losses over capital dai	ins		. was considered the		
		~		******	
			8 Deductions on	this roturn not observed	
spenses recorded on books this year r	not				
Depreciation		[	h Charitable con	tributions \$	, MONE
Charitable contributions \$	-		~ onwittene coll		NONE
		529.	# ** ** · · · · · · · · · · · · · · · ·		
				L	
ravel and entertainment . \$	·-	- 1	9 Add lines 7 and	d A	37473773
ravel and entertainment . \$ SEE STATEMENT 5	16,779,2	14.		d 8	***************************************
fravel and entertainment . \$ SEE STATEMENT 5 Add lines 1 through 5	16,779,2 -535,594,1	14.	O locome (page 1	line 281 - line 6 loss line 0	-535 504 149
ravel and entertainment . \$ SEE STATEMENT 5  add lines 1 through 5	16,779,2 -535,594,1 ppropriated Retaine	14. 48. 1	0 Income (page 1, ings per Boo	line 28) - line 6 less line 9 ks (Line 25, Schedul	-535 504 149
ravel and entertainment . \$  SEE STATEMENT 5  add lines 1 through 5  cdule M-2 Analysis of Una talance at beginning of year	16,779,2 -535,594,1 ppropriated Retaine -20,468,6	14. 48. 1 <b>d Earr</b> 65.	0 Income (page 1, ings per Boo 6 Distributions: a	line 28) - line 6 less line 9 ks (Line 25, Schedul a Cash	-535 504 149
ravel and entertainment . \$  SEE STATEMENT 5  add lines 1 through 5  cutle M-2 Analysis of Una talance at beginning of year  let income (loss) per books.	16,779,2 -535,594,1 ppropriated Retaine -20,468,6 -552,373,8	14. 48. 1 <b>d Earr</b> 65.	Income (page 1, Ings per Boo Distributions: a	line 28) - line 6 less line 9  ks (Line 25, Schedul a Cash b Stock	-535 504 149
ravel and entertainment . \$  SEE STATEMENT 5  add lines 1 through 5  cdule M-2 Analysis of Una talance at beginning of year	16,779,2 -535,594,1 ppropriated Retaine -20,468,6 -552,373,8	14. 48. 1 <b>d Earr</b> 65.	Income (page 1, lings per Boo Distributions: a	ks (Line 25, Schedula Cash	-535 504 149
ravel and entertainment .\$  SEE STATEMENT 5  add lines 1 through 5  coule M-2 Analysis of Una talance at beginning of year let income (loss) per books.	16,779,2 -535,594,1 ppropriated Retaine -20,468,6 -552,373,8	14. 48. 1 <b>d Earr</b> 665. 91.	0 Income (page 1, ings per Boo 6 Distributions: a b 6 Other decrease	ks (Line 25, Schedula Cash	-535 594 148
ravel and entertainment . \$  SEE STATEMENT 5  add lines 1 through 5  cutle M-2 Analysis of Una talance at beginning of year  let income (loss) per books.	16,779,2 -535,594,1 ppropriated Retaine -20,468,6 -552,373,8 -572,842,5	14. 48. 1 <b>d Earr</b> 65. 91.	income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1, income (page 1	ks (Line 25, Schedula Cash	NONE -535,594,148. e L)
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Expenses recorded on books this year not reducted on line returns.	Assets Cash. Trade notes and accounts receivable Less allowance for bad debts Inventories. U.S. government obligations Tax-exempt securities (see instructions) Other current assets (altach statement). U.S. government obligations Tax-exempt securities (see instructions) Other current assets (altach statement). 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Trade notes and accounts receivable Less allowance for bad debts Inventories, U.S. government obligations Tax-exampt securilities (see instructions) Other current assets (attach statement). Loens to shareholders Other investments (attach statement) Buildings and other depreciable assets Less accommulated depreciation Chand (nest of any amortization) Intragible assets (attach statement) Chand (nest of any amortization) Intragible assets (attach statement) Total assets Labellities and Shareholders' Equity Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bonds payable in less Mortgages, notes, bo	Assets (a) (b) (c)  Assets (a) (b) (c)  Cash. 37,640,973.  Trade notes and accounts receivable

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# SCHEDULE G

# Information on Certain Persons Owning the

(Rev. Decer Department Internal Rev	Form 1120)  Rev. December 2011) Deportment of the Tressury Informal Revenue Service  Attach to Form 1120, See Instructions on page 2.					OMB No. 1545-0123	
Name TELE C/O	XFREE, LI	LC DARR, BANKRUPTO	יע ייפוופייביי		Employer (den	tification nu	imber (E!N)
Part	Certain Ent columns (i) as a partner	itties Owning the Corp through (v) below for rship), trust, or tax-exe 0% or more of the tota	oration's Voting Ste any foreign or dome mot organization the	estic corporation, par at owns directly 20%	tnership (inclu	iding any	entity treated
	(I) Name of Entity		(il) Employer Identification Number (if any) (태) Type of Entity		(iv) ( Org	Country of anization	(v) Percentage Owner in Voling Stock
		· · · · · · · · · · · · · · · · · · ·					
						htt mulau	
***************************************							
		,					
	More, or own	viduals and Estates O ). Complete columns ns, directly or indirectl d to vote (see instructio	(i) through (iv) below ly, 50% or more of th	/ for any individual o	r estate that or	was dire	ctly 20% or
	(	i) Name of Individual or Estate		(ii) Identifying Number (if any)	(iii) Country of Citizenship (see Instructions)	(iv)	Percentage Owned In Voting Stock
CARLO	S WANZEL	ER			US		50.000
JAMES	MERRILL	TO CONTRACT TO THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE STATE OF THE			ບຣ		50.000
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For Paperwork Reduction Act Notice, see the instructions for Form 1120.

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Schedule G (Form 1120) (Rev. 12-2011)

Form 4	4626	Alternative Minimum Tax - Corporations	-	OMB No. 1545-0123
	nent of the Treasury 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	TELEXFRE		mployer	Identification number
	C/O STEP	HEN DARR, BANKRUPTCY TRUSTEE		
		e instructions to find out if the corporation is a small corporation exempt from the imum tax (AMT) under section 55(e).		
1	Taxable incom	e or (loss) before net operating loss deduction	1_1_	-535594148,
2	Adjustments a	and preferences:	1	
a		f post-1986 property	2a	
	Amortization of	certified pollution control facilities	2b	
c	Amortization o	f mining exploration and development costs	2c	
d	Amortization o	f circulation expenditures (personal holding companies only)	2d	
0		or loss		
f	Long-term con	tracts	2f	
g	Merchant mari	ne capital construction funds	2g	
'n	Section 833(b)	deduction (Blue Cross, Blue Shield, and similar type organizations only)	2h	
į	Tax shelter far	m activities (personal service corporations only)	21	
j	Passive activiti	es (closely held corporations and personal service corporations only)	2	
k	Loss limitations	\$ , , , , , , , , , , , , , , , , , , ,	2k	
ı	Depletion		21	
m	Tax-exempt int	erest income from specified private activity bonds	2m	
n	Intangible drilli	ng costs	2n	
0	Other adjustme	ents and preferences	20	NONE
3		t alternative minimum taxable income (AMTI). Combine lines 1 through 20 ,	3	-535594148.
4	•	ent earnings (ACE) adjustment:	1	
		TO 05 the Figure From the first monday of the first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first first fi	-	,
b		from line 4a. If line 3 exceeds line 4a, enter the difference amount (see instructions)		
		by 75% (.75). Enter the result as a positive amount	┪	
	- *		-	
đ		ss, if any, of the corporation's total increases in AMTI from	1	
		adjustments over its total reductions in AMTI from prior astments (see instructions). Note: You must enter an		
		4d (even if line 4b is positive)		
a	ACE adjustmen		1	
•			4e	
	• If line 4b is f	ess than zero, enter the amount from line 4c ess than zero, enter the smaller of line 4c or line 4d as a negative amount	- Wanter	
5	Combine lines	3 and 4e. if zero or less, stop here; the corporation does not owe any AMT.	5	-535594148.
6		net operating loss deduction (see instructions)		
7		nimum taxable income. Subtract line 6 from line 5. If the corporation held a residua	1	
		EMIC, see instructions	7_	-535594148.
8		ase-out (if line 7 is \$310,000 or more, skip lines 8a and 8b and enter -0- on line 8c):		
а		000 from line 7 (if completing this line for a member of a		
		p, see instructions). If zero or less, enter -0	~t	
b	Multiply line 8a	by 25% (.25) NONI	_,	
C		btract line 8b from \$40,000 (if completing this line for a member of a controlled group		40,000.
		s), If zero or less, enter -0-		40,000.
9		c from line 7. If zero or less, enter -0		
10 11	Alternative min	by 20% (.20)		
12		num tax. Subtract line 11 from line 10.	•	
13		bility before applying all credits except the foreign tax credit		······································
14		nimum tax. Subtract line 13 from line 12. If zero or less, enter -0 Enter here and or		***************************************
		hedule J, line 3, or the appropriate line of the corporation's income tax return		NONE
For Pa	······································	on Act Notice, see separate instructions.		Form 4626 (2014
		•		

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# 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 4826	1	-535594148.
2		ACE depreciation adjustment:	17.00	
	a	AMT depreciation NONE		
	þ	ACE depreciation:	įγήt.	
		(1) Post-1993 property		
		(2) Post-1989, pre-1994 property		
		(3) Pre-1990 MACRS property		
		(4) Pre-1990 original ACRS property,		
		(5) Property described in sections 168(f)(1) through		
		(4)		
		(6) Other property		
		(7) Total ACE depreciation. Add lines 2b(1) through 2b(6)		
	_			NAME
	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	1	
	þ	Death benefits from life insurance contracts ,		
	C	All other distributions from life insurance contracts (including surrenders) 3c	: :	
	d	Inside buildup of undistributed income in tite insurance contracts		
	е	Other items (see Regulations sections 1.55(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:		
	а	Certain dividends received		
	b	Dividends paid on certain preferred stock of public utilities that are deductible under		
		section 247		
	С	Dividends paid to an ESOP that are deductible under section 404(k)		
	đ	Nonpatronage dividends that are paid and deductible under section 1382(c) 4d		
			£ 11.	
	e	Other items (see Regulations sections 1.56(g)-1(d)(3)(i) and (ii) for a partial list) 4a		
	•	Total to the test to state the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the test to the		
	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:	***	
Đ	_	· · · · · · · · · · · · · · · · · · ·	1. 1	
	a			
	b		200	
	C	Organizational expenditures		
	d	LIFO inventory adjustments	1	
	9	Installment sales		
	f	Total other E&P adjustments. Combine lines 5a through 5e	5f	4-11-181
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.

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Form	1125-A	Cost of Goods Sold		
(Rev. I	December 2012)			O440 11. 4747 0007
Interne	tment of the Treasury al Revenue Service	<ul> <li>Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.</li> <li>Information about Form 1125-A and its instructions is at www.irs.gov/for</li> </ul>	m1125a.	OMB No. 1545-2225
Name	TELEXFRE	E, LLC		dentification number
	C/O STEP	HEN DARR, BANKRUPTCY TRUSTEE		
1			1	
2		l ^{···}	2	
3	Cost of labor	4	3	
4	Additional section	2004t- (-ttttt-t-t-tttt-t-ttt	4	
5	Other costs (attac		6	1,563,042.
6		the country of	6	1,563,042.
7	inventory at end of	•	7	
8	Cost of goods so appropriate line of	td. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the your tax return (see instructions)	8	1,563,042.
9a	(i) Cost	s used for valuing closing inventory:  cost or market  pecify method used and attach explanation.)		
ð	Check if there wa	s 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).		▶ □
đ	If the LIFO invent	ory method was used for this tax year, enter amount of closing inventory computed		
6		uced or acquired for resale, do the rules of section 263A apply to the entity (see instruction		Yes No
f	Was there any ch	ange in determining quantities, cost, or valuations between opening and closing inventory?	If "Yes."	Yes No
			· · · · · · · · · · · · · · · · · · ·	

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

### General Instructions Purpose of Form

Form 1125-A

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

#### 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 taxoayer 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.

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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 forming by binage. a farming business.

	Paperwork F		860	instruct	ons.
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1472KP 1592 Form 1125-A (12-2012)

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Case 18-04091 Doc 54-11 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 11 Form 1120X for 2014 Page 15 of 22

TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL

LINE 17 - TAXES AND LICENSES

TELECOM TAX EXPENSE PAYROLL TAX EXPENSE

46,808. 14,483.

TOTAL

61,291.

STATEMENT

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1472KP 1592

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
б.	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	W W W W W W W W W W W W W W W W W W W	7,500.
	AND AND DOLL (mp) from the wind state and their state and their time.		*****	
TOTAL	7,500.	none		7,500.

STATEMENT

1472KP 1592

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TELEXFREE, LLC

FORM 1120, PAGE 1 DETAIL 

LINE 26 - OTHER DEDUCTIONS ------

TRAVEL, MEALS AND ENTERTAINMENT	34 001
BANK CHARGES	34,021.
EVENTS	3,629.
FILING AND REGISTERED AGENT FEES	6,668.
LEGAL AND PROFESSIONAL FEES	269,145.
165 LOSS SEC ASSET SEIZURE	2,140,637.
ACCRUED ADMINISTRATIVE EXPENSES	148,000,000.
MERCHANT FEES	3,271,988.
OFFICE EXPENSES	313,623.
PAYROLL FEES	11,482. 9,1447 2145
PAYROLL EXPENSES	
PERSONNEL	12,306.]
POSTAGE AND DELIVERY	47,344.
CONSULTING EXPENSE	90.
SOFTWARE EXPENSE	3,896,209.
SMALL ITEMS NOT CAPITALIZED	51,684.
SUBCONTRACTOR	1,749.
TOTAL TECHNOLOGY CONSULTANT	283,642.
WEBSITE DOMAIN	257,663.
CDCCC CDDCCC - No	60.
GROSS CREDIT LIABILITY ACCRUAL SEE STATEMENT 3A FOR DETAIL	2,442,705,607.
TOTAL	2,601,316,691.

STATEMENT 3

1472KP 1592

______

Taxpayer:

TelexFree, LLC

EIN:

Telexifice, Esta

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
\$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	3,475.	NONE
ORGANIZATIONAL COSTS	97,949.	NONE
SOFTWARE	5,944.	NONE
SECURITY DEPOSITS	J, J44.	
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

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1472KP 1592

# Case 18-04091 Doc 54-11 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 11 Form 1120X for 2014 Page 20 of 22

TELEXFREE, LLC

FORM 1120, PAGE 5 DETAIL

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

PENALTIES & SETTLEMENTS FEDERAL & STATE TAXES

638. 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

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1472KP 1592

# Case 18-04091 Doc 54-11 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 11 Form 1120X for 2014 Page 21 of 22

TELEXFREE, LLC			
FORM 4626 DETAIL			
LINE 20 - OTHER	ADJUSTMENTS - CONTRIBUTI	ONS DEDUCTION	
DOMESTIC PRO 2. LESS: NOL CA 3. PLUS: CAPITA	L LOSS CARRYBACK		-535,594,148.
4. AMTI WITHOUT REGARD TO CONTRIBUTIONS, SPECIAL DEDUCTIONS, DOMESTIC PRODUCTION ACTIVITIES DEDUCTION, NOL CARRYBACKS, AND CAPITAL LOSS CARRYBACKS 5. CONTRIBUTION DEDUCTION LIMITATION (AMTI X 10%) 6. AMOUNT OF DEDUCTIBLE CONTRIBUTIONS			-535,594,148. NONE 7,500.
7. CONTRIBUTION	DEDUCTION (LESSER OF LI	NE 5 OR LINE 6)	NONE
5 YEAR CONTRIBUT	IONS CARRYOVER		
	AMOUNT AVAILABLE	AMOUNT UTILIZED	CARRYOVER TO NEXT YEAR
12/31/2013	7,500.	NONE	7,500.
TOTAL	7,500.	NONE	7,500.
	BUTIONS ADJUSTMENT		
REGULAR CONTRIBUT			NONE NONE
CONTRIBUTION ADJU	JSTMENT		NONE

STATEMENT

1472KP 1592

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# Case 18-04091 Doc 54-11 Filed 09/20/19 Entered 09/20/19 16:19:40 Desc Exhibit 11 Form 1120X for 2014 Page 22 of 22

TELEXFREE, LLC

FORM 1125-A DETAIL

LINE 5 - OTHER COSTS

TELECOM & DATABASE NETWORK EXPENSE TERMINATION

TOTAL

57,886. 1,505,156.

1,563,042.

STATEMENT 7

1472KP 1592

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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:

Exhibit 12

TELEXEREE LLC

JAMES M MERRILL MBR

% S DARR BANKRUPTCY TTEE

100 HIGH ST 2301

BOSTON, MA 02110-2321-990

<<<pre><<<<pre>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

(TRIS 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

NEI IMANDEE INCOME.

\$0.00

MINIMUM TAX AMOUNT:

, . . . .

ESTIMATED TAX CREDITS:

\$0.00

PERSONAL HOLDING TAX:

\$0.00 \$0.00

ES/7004 PAYMENTS CLAIMED: 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	

# 1004៤ ម៉ាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004៤ ខាង 1004

1.66	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		12-12-2013	-\$179,986.86
	Miscellaneous Payment			
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

# Account Transcript

Request Date:

09-19-2019

Response Date:

09-19-2019

Tracking Number:

100471045344

**Exhibit** 

FORM NUMBER:

1120

TAX PERIOD:

Dec. 31, 2013

TAXPAYER IDENTIFICATION NUMBER:

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

NATCS CD:

454390

RETURN DUE DATE OR RETURN RECEIVED DATE (WHICHEVER IS LATER) Sep. 21, 2016 PROCESSED DATE Dec. 26, 2016

TRANSACTIONS

CYCLE DATE AMOUNT

150 Tax return filed

201649 12-26-2016

\$0.00

n/a 29310-317-00900-6

620 Initial installment payment

CODE EXPLANATION OF TRANSACTION

03-17-2014

-\$15,792,982.00

# 1004@1846 1846 04091 Doc 54-13 Filed 09/20/19 Entered 09/20/19 16:19:40 Deset 2 13 IRS Literal Transcript for 2013 Page 2 of 2

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	ŕ	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:

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:

NAICS CD:

\$0.00 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	THUOMA	
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	

# 1004**៤៤៩ 181-0**4091 Doc 54-14 Filed 09/20/19 Entered 09/20/19 16:19:40 Destablif 14 IRS Literal Transcript for 2014 Page 2 of 2

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