

UNITED STATES BANKRUPTCY COURT
DISTRICT OF MASSACHUSETTS

In Re:

TELEXFREE, LLC,
TELEXFREE, INC.,
TELEXFREE FINANCIAL, INC.,

Debtors.

Chapter 11

Case No. 14-40987-MSH

Case No. 14-40988-MSH

Case No. 14-40989-MSH

Jointly Administered

EIGHTH OMNIBUS OBJECTION BY CHAPTER 11 TRUSTEE TO
DISPUTED PARTICIPANT CLAIMS

To the Honorable Melvin S. Hoffman, United States Bankruptcy Judge:

Stephen B. Darr, the duly appointed Chapter 11 trustee (the "Trustee") of the bankruptcy estates (the "Estates") of TelexFree, LLC, TelexFree, Inc., and TelexFree Financial, Inc. (collectively, the "Debtors" or "TelexFree"), respectfully submits this Eighth Omnibus Objection (the "Objection") by Chapter 11 Trustee to Disputed Participant Claims set forth on Exhibit "A" hereto, in accordance with Federal Rule of Bankruptcy Procedure 3007 and the Claims Procedure Order.

The Trustee is requesting that each claim identified on Exhibit "A" be disallowed or conditionally allowed in the amount indicated for the reasons set forth in this Objection and in Exhibit "A". Disputed Participant Claimants receiving this Objection should locate their name and claim number on Exhibit "A" and review the proposed treatment of their claims. If the Disputed Participant Claimant disputes the Trustee's proposed treatment of his/her claim, such claimant must file a response with the Court, and serve a copy upon the Trustee within the time prescribed, all as set forth in the Notice attached hereto.



Background

1. On April 13, 2014 (the “Petition Date”), the Debtors filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code (“Bankruptcy Code”).

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

3. 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 motion for joint administration was approved.

4. On May 30, 2014, the Court allowed the motion by the Office of the United States Trustee to appoint a Chapter 11 trustee, and the Trustee was appointed on June 6, 2014.

5. TelexFree operated one of the largest Ponzi and pyramid schemes in United States history in terms of the number of persons involved. TelexFree used the sale of voice over internet protocol (“VoIP”) plans as a disguise for its real business, which was the recruitment of persons buying membership plans (“Participants”) through a multi-level marketing format and the use of membership fees paid by new Participants to pay the credits redeemed by existing Participants.

6. TelexFree’s scheme was extensive, complicated, and multi-tiered. Most of the Participants became involved in TelexFree through a “Triangular Transaction”, whereby a Participant was recruited to join by purchasing a membership plan and paying the membership fee to a recruiting Participant, who retained the membership fee and used his/her accumulated TelexFree credits to pay the membership fee due from the recruited Participant.

Claims Determination Process

7. On October 7, 2015, the Trustee filed his *Motion by Chapter 11 Trustee for Entry of Order Finding that Debtors Engaged in Ponzi and Pyramid Scheme and Related Relief* (the “Ponzi Motion”). In the Ponzi Motion, the Trustee sought two principal findings: first, that TelexFree was a Ponzi and pyramid scheme and, second, that Participant claims should be determined based upon a “Net Equity” formula commonly employed in Ponzi scheme cases.

8. By order dated November 25, 2015, as amended on December 21, 2015, the Court found the Debtors had engaged in a Ponzi and pyramid scheme and that this finding was the law of the case.

9. By supplemental order dated January 26, 2016, the Court approved the Net Equity formula for determining Participant claims. The Net Equity formula provides for the following:

- (i) in determining the amount of a Participant claim, any claim or portion of claim based upon accumulated credits in a Participant’s account (a “User Account”) as of the Petition Date shall be disallowed;
- (ii) Participant claims shall be computed based upon the amount paid by the Participant to the Debtors, including amounts paid pursuant to Triangular Transactions, less amounts received by the Participant from the Debtors including amounts received pursuant to Triangular Transactions;
- (iii) In determining the amount of a claim of a Participant who has more than one User Account, the activity in all of the Participant’s User Accounts shall be aggregated and netted against one another.

10. In the initial stages of these cases, Participants submitted proofs of claim in multiple places, including the Court, the claims agent retained by the Debtors, Kurtzman Carson Consultants, LLC (“KCC”), the Federal Bureau of Investigation, and the Commonwealth of Massachusetts, Office of the Secretary of State. The information provided by Participants in the

forms did not provide sufficient information for the Trustee to reconcile Participant claims with TelexFree's books and records.

11. In order to establish a process for filing and evaluating claims that was consistent, accessible, and efficient, on October 7, 2015, the Trustee filed the *Motion by Chapter 11 Trustee for Entry of Order Fixing Bar Date for Filing Proofs of Claim, Approving Form and Manner of Providing Notice, Directing that Claims be Filed Electronically, and Approving Content of Electronic Proofs of Claim* (the "Claims Motion"). Pursuant to the order approving the Claims Motion (the "Claims Order"), the deadline to file proofs of claim, as extended on two separate occasions, was March 15, 2017.

12. The Claims Order established a process whereby Participants would use an interactive, electronic claims portal hosted on the internet ("Portal") to file a claim (a "Participant ePOC") in accordance with the Net Equity formula. The Portal provided Participants with the opportunity to provide and/or confirm personal or business name(s), address(es), phone number(s), electronic mail address(es), taxpayer identification number(s), User Account name(s), password(s), and bank account information that were utilized by the Participants when establishing their User Account(s). Based upon the information provided by Participants, the Portal presented the Participant's User Accounts and account activity within the Participant's User Accounts. Participants had the opportunity to confirm, reject, amend, or supplement the information presented by the Portal.

13. The establishment of the Portal was essential to the claims resolution process. The Portal was the only practical method of verifying Participant activity with the TelexFree books and records. Inasmuch as TelexFree had approximately 1,000,000 Participants who collectively opened approximately 11,000,000 User Accounts that reflected more than

1,000,000,000 transactions, a manual reconciliation of Participant claims against the TelexFree books and records without the Portal would have been impossible.

14. To date, approximately 135,000 Participant ePOC's have been filed. The Trustee has reconciled to the TelexFree books and records and conditionally allowed approximately 100,000 Participant ePOC's.

15. On October 16, 2017, the Trustee filed a *Motion by Chapter 11 Trustee to Establish Omnibus Procedures for the Resolution of Disputed Participant Claims* [docket entry 921] which was approved by order dated December 26, 2017 (the "Claims Procedure Order", docket entry 955).

16. Four thousand and twelve (4,012) Participants filed Zero Dollar Claims, that is, claims indicating a claim amount of \$0. Eight thousand eighty-six (8,086) Participants filed Net Winner Claims, that is, the claims reflected that the Participant received more from TelexFree than they paid to TelexFree, including consideration of amounts received and paid through Triangular Transactions.

17. Although not required to by the terms of the Claims Procedure Order, the Trustee sent a letter (the "Claims Letter") electronically to the Zero Dollar Claim and Net Winner Claim holders at the addresses listed on their claims, providing them with thirty (30) days to submit additional documentation to establish their claims and informing them that, in the absence of additional information, the Trustee would move to have the claims disallowed.

18. The Disputed Participant Claimants subject to this objection delivered a response to the Claims Letter to the Trustee. Based upon the responses received, the Trustee conducted a further review of the claims and proposes conditional allowance of the claims in the amounts indicated.

Objection to Claims

19. By this Objection, the Trustee seeks entry of an order conditionally allowing the Disputed Participant Claims in the amounts indicated on Exhibit “A”. “Conditionally Allowed Claims” are those Participant claims which have been allowed for purposes of distribution by the Trustee unless the Trustee files a supplemental Notice of Claim Allowance or Disallowance on or before ten (10) days prior to a scheduled distribution to Participants.

20. Exhibit “A” includes, for each Disputed Participant Claim: (i) the claim number assigned to the Disputed Participant Claim; (ii) the name provided by the Disputed Participant Claimant; (iv) the amount of the Disputed Participant Claim; and (iv) the proposed treatment of the Disputed Participant Claim.

Notice

21. The Trustee intends to provide Notice to Disputed Participant Claimants respecting the deadline to respond to this Objection, the information to be provided in any response, and the initial, nonevidentiary hearing on the motion. As set forth in the Notice, responses must be sent to ClaimResponse@telexfreeclaims.com. The form of the Notice was previously approved by the Court.

22. In accordance with the Claims Procedure Order, the Trustee intends to have this Objection and the Notice translated into Spanish and Portuguese and served upon all Disputed Participant Claimants.

23. Nothing in this objection constitutes a waiver of any right of the Trustee to assert claims or causes of action against any Participant or any other party. Nothing in this objection shall constitute a waiver of any right of the Trustee to object to any other claim asserted that is

not included in the Objection, or to supplement, amend, or assert additional bases for objection to the Exhibit “A” claims.

Wherefore, the Trustee prays that the Court:

1. Enter an order disallowing each of the Disputed Participant Claims identified on Exhibit “A” hereto or conditionally allowing such claims in the amounts indicated on Exhibit “A”; and
2. Granting such other relief as is just and proper.

STEPHEN B. DARR,
CHAPTER 11 TRUSTEE,
By his attorneys,

/s/ Andrew G. Lizotte

Harold B. Murphy (BBO #362610)
Andrew G. Lizotte (BBO #559609)
Murphy & King, Professional Corporation
One Beacon Street
Boston, MA 02108

Dated: December 30, 2019
768139

Claim Number	Claimant Name	Country of Residence ¹	Objection Reason	Amount of Claim as Filed	Proposed Allowed Amount	Docket Number of Response	Notes
59612-000	Idinei Sousa De Oliveira	Brazil	Zero Dollar Claim	\$ 0.00	\$ 338.90	N/A	
66748-000	Henrique Ferreira Alves	Brazil	Zero Dollar Claim	0.00	339.00	N/A	
83113-000	Walison Pereira Pereira	Brazil	Zero Dollar Claim	0.00	4,722.50	N/A	
99808-000	Clauderson Marques Cunha	Brazil	Net Winner Claim	(489.30)	3,363.50	N/A	
108364-000	Cesario Silva Palhares	Brazil	Zero Dollar Claim	0.00	1,425.00	N/A	
112968-000	Leonardo Elias Pereira Da Cruz	Brazil	Zero Dollar Claim	0.00	1,425.00	N/A	
124699-000	Vandely Martins Arruda	Brazil	Zero Dollar Claim	0.00	2,197.00	N/A	
125112-000	Maurivaldo Barroso Romeiro Barroso Romeiro	Brazil	Zero Dollar Claim	0.00	2,899.90	N/A	
125921-000	Alberto Luiz Costa	Brazil	Zero Dollar Claim	0.00	5,859.70	N/A	
126282-000	Franklin Panazzolo Panazzolo Leardini	Brazil	Zero Dollar Claim	0.00	8,550.00	N/A	
128310-000	Helder Dos Reis	Brazil	Zero Dollar Claim	0.00	8,250.60	N/A	
128362-000	Lucimara Santos De Oliveira Lucimara Lucimara	Brazil	Zero Dollar Claim	0.00	1,425.00	N/A	
62695-000	Ndikumana Cyprien	Burundi	Net Winner Claim	(1,901.90)	907.90	N/A	
52666-000	Anz Bank In Cambodia	Cambodia	Zero Dollar Claim	0.00	3,491.70	N/A	
127197-000	Carmen Antonieta Guinez Fajardo	Chile	Zero Dollar Claim	0.00	1,425.00	N/A	
46686-000	Israel Garizao Pacheco	Colombia	Zero Dollar Claim	0.00	3,139.10	N/A	
06111-000	Lewis Alexander Peralta	Dominican Republic	Zero Dollar Claim	0.00	1,178.20	N/A	
13859-000	Edwin Ramon Hernandez	Dominican Republic	Zero Dollar Claim	0.00	1,375.10	N/A	
17578-000	Miguel Angel Sosa Sosa Miguel Angel Sosa Sosa	Dominican Republic	Zero Dollar Claim	0.00	1,535.20	N/A	
46907-000	Israel Salvador Brito Hernandez	Dominican Republic	Zero Dollar Claim	0.00	1,325.00	N/A	
65751-000	Lorena Frangelina Emiliano	Dominican Republic	Zero Dollar Claim	0.00	1,425.00	N/A	
115392-000	Ramon Felix De Los Santos	Dominican Republic	Zero Dollar Claim	0.00	1,425.00	N/A	
126467-000	Fatima Margarita Zevallos Luna	Ecuador	Zero Dollar Claim	0.00	736.10	N/A	
126975-000	Amparito Del Pilar Paredes Muesmueran	Ecuador	Zero Dollar Claim	0.00	1,425.00	N/A	
58828-000	Jose Andres Valdivieso	El Salvador	Net Winner Claim	(2,545.40)	2,486.20	N/A	
79073-000	Wilmer Alexander Zelaya	Honduras	Zero Dollar Claim	0.00	1,425.00	N/A	
53904-000	Shyam Kaji Gurung	Hong Kong	Zero Dollar Claim	0.00	8,571.07	N/A	
35016-000	Paola Casanova	Italy	Net Winner Claim	(3,860.20)	7,075.10	N/A	
117216-000	Gamaliel Edmundo Garcia Soto	Mexico	Zero Dollar Claim	0.00	1,425.00	N/A	
04855-000	Margit Elisabeth Gerritje Van Der Voort-Voortman	Netherlands	Zero Dollar Claim	0.00	5,305.00	N/A	
47516-000	Luis Miguel Araujo Mesquita Miguel Mesquita	Portugal	Zero Dollar Claim	0.00	2,377.20	N/A	
52329-000	Victor Manuel Abreu Olim Marote Abreu Marote	Portugal	Zero Dollar Claim	0.00	5,749.90	N/A	
38279-000	Ernesto Elermo Quezada	Puerto Rico	Zero Dollar Claim	0.00	5,281.30	N/A	
75631-000	Inmaculada Moreno Atienza	Spain	Zero Dollar Claim	0.00	10,754.00	N/A	
124508-000	Jose Manuel Berjano Perez Berjano Pérez	Spain	Zero Dollar Claim	0.00	1,425.00	N/A	
44219-000	Nicholas Timothy Mwakipesile	Tanzania	Zero Dollar Claim	0.00	967.10	N/A	
90245-000	Mukenye Samson	Uganda	Net Winner Claim	(3,429.10)	2,857.00	N/A	
90607-000	Kaidu Bety	Uganda	Net Winner Claim	(1,517.50)	1,911.60	N/A	
01251-000	Andre Luiz Duarte	United States	Zero Dollar Claim	0.00	15,635.46	N/A	
02739-000	Armida Molina	United States	Zero Dollar Claim	0.00	1,318.20	N/A	
30985-000	Maria Linda Chataigne	United States	Zero Dollar Claim	0.00	339.00	N/A	
31243-000	Jean Fouchard Pierre-Louis	United States	Zero Dollar Claim	0.00	2,551.70	N/A	
36519-000	Debra A Aldrich	United States	Zero Dollar Claim	0.00	5,700.00	N/A	
43457-000	Antonio Demelo	United States	Zero Dollar Claim	0.00	8,599.90	N/A	
43545-000	Marie Lanett Thomas	United States	Zero Dollar Claim	0.00	39.00	N/A	
43694-000	Frank J Gallo Jr	United States	Zero Dollar Claim	0.00	2,400.90	N/A	
43866-000	Francis Olaoluwa Olaosun	United States	Zero Dollar Claim	0.00	5,160.40	N/A	
50554-000	The Us Bankruptcy Court	United States	Zero Dollar Claim	0.00	1,474.90	N/A	
52006-000	Marcelo C Carlos	United States	Zero Dollar Claim	0.00	1,592.70	N/A	
52084-000	Krishanthan Balasuriya	United States	Zero Dollar Claim	0.00	388.90	N/A	2
55292-000	Daniel Vang	United States	Net Winner Claim	(28,251.60)	7,125.00	N/A	
55499-000	Davis Antonio Bonilla	United States	Zero Dollar Claim	0.00	4,324.90	N/A	
56859-000	Alfredo Cardona	United States	Zero Dollar Claim	0.00	1,425.00	N/A	
56878-000	Liliana Ines Cardona	United States	Zero Dollar Claim	0.00	1,425.00	N/A	
58900-000	Galy Chávez	United States	Zero Dollar Claim	0.00	3,325.00	N/A	
63151-000	Roberto Celestin	United States	Zero Dollar Claim	0.00	5,483.50	N/A	
80591-000	Maria Eliza Dasilva	United States	Zero Dollar Claim	0.00	14,250.00	N/A	
80965-000	Paula Coelho	United States	Net Winner Claim	(23,471.30)	5,749.90	2591	
91111-000	Andrew Kalungi	United States	Net Winner Claim	(992.90)	26,385.30	N/A	
100999-002	Simon Mburu Ngotho	United States	Zero Dollar Claim	0.00	8,276.20	N/A	
111117-000	Maria Medeiros	United States	Zero Dollar Claim	0.00	4,242.10	N/A	2
111825-000	Rosemarie Tiburcio	United States	Zero Dollar Claim	0.00	1,425.00	N/A	
116976-000	Steve Boltysky	United States	Zero Dollar Claim	0.00	212.59	N/A	
117799-000	Wellington Gonzalez Calcaño	United States	Zero Dollar Claim	0.00	467.90	N/A	
119537-000	Terezinha Santos	United States	Zero Dollar Claim	0.00	727.90	N/A	
120155-000	Jose Ary Teixeira	United States	Zero Dollar Claim	0.00	10,527.60	N/A	
123430-000	Juvenal D Robles	United States	Zero Dollar Claim	0.00	3,398.90	N/A	
124178-000	Edneia Caires	United States	Zero Dollar Claim	0.00	2,850.00	N/A	
125574-000	Danny Yang Yang	United States	Zero Dollar Claim	0.00	49.90	N/A	
127562-000	Vanessa Tellez	United States	Zero Dollar Claim	0.00	3,184.90	N/A	
128329-000	Paul K Njenga	United States	Zero Dollar Claim	0.00	2,899.90	N/A	2
128940-000	Diana M Abidin	United States	Zero Dollar Claim	0.00	4,324.90	N/A	
129966-000	Sandra Maria Lima-Cundari	United States	Zero Dollar Claim	0.00	8,354.69	N/A	
133110-000	Alfredo Rabulan Ruiz	United States	Zero Dollar Claim	0.00	2,254.99	N/A	
125269-000	Jose Gabriel Rangel Jose Gabriel Rangel	Venezuela	Zero Dollar Claim	0.00	339.00	N/A	

Notes

1: Country of Residence as entered by Claimant on the claim form filed electronically.

2: Claimant did not identify his or her name in the "Creditor Name" field of the claim form, and therefore claimant name was derived from the "Signature" field. The "Notice" and "Registration" fields were also considered as necessary.