

**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

**TENTH 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 Tenth 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 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. The Trustee has to date filed nine omnibus objections to the claims of disputed Participants.

17. The Disputed Participant Claimants subject to this objection could not be resolved through the out of Court process established in the Claims Procedure Order.

Objection to Claims

18. By this Objection, the Trustee seeks entry of an order disallowing the claims indicated on Exhibit "A". Each of the claims were filed as placeholder claims (as denoted by the notation "Pending") and were superceded by later filed claims.

19. 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

20. 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.

21. 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.

22. 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; 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: July 13, 2020

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EXHIBIT A

Claim Number	Claimant Name	Country of Residence ¹	Objection Code ²	Amount of Claim as Filed	Proposed Allowed Amount
72697-000	Pending Pending Pending	Dominican Republic	G	\$ 1,425.00	Disallowed
75069-000	Pending Uno	Dominican Republic	G	1,425.00	Disallowed
75070-000	Pending Mil Mil	Dominican Republic	G	1,425.00	Disallowed
75072-000	Pending Mil Uno	Dominican Republic	G	1,425.00	Disallowed
75075-000	Pending Mil Dos	Dominican Republic	G	1,425.00	Disallowed
75076-000	Pending Mil Tres	Dominican Republic	G	1,425.00	Disallowed
75078-000	Pending Mil Cinco	Dominican Republic	G	1,425.00	Disallowed
75080-000	Pending Mil Seis	Dominican Republic	G	1,425.00	Disallowed
75081-000	Pending Mil Siete	Dominican Republic	G	1,425.00	Disallowed
75082-000	Pending Mil Ocho	Dominican Republic	G	1,425.00	Disallowed
75085-000	Pending Mil Nueve	Dominican Republic	G	1,425.00	Disallowed
75086-000	Pending Mil Diez	Dominican Republic	G	1,425.00	Disallowed
76793-000	Pending Dos	Dominican Republic	G	1,425.00	Disallowed
76827-000	Pending Tres	Dominican Republic	G	1,425.00	Disallowed
76905-000	Pending Cuatro	Dominican Republic	G	1,425.00	Disallowed
77366-000	Pending Tresmil Uno	Dominican Republic	G	1,425.00	Disallowed
79506-000	Pending Dosmil Uno	Dominican Republic	G	2,850.00	Disallowed
79647-000	Pending Dosmil Siete	Dominican Republic	G	1,425.00	Disallowed
79721-000	Pending Dosmil Nueve	Dominican Republic	G	2,850.00	Disallowed
79749-000	Pending Dosmil Once	Dominican Republic	G	2,850.00	Disallowed
79814-000	Pending Dosmil Catorce	Dominican Republic	G	1,425.00	Disallowed
79857-000	Pending Dosmil Diecinueve	Dominican Republic	G	1,425.00	Disallowed
79891-000	Pending Veinty Tres	Dominican Republic	G	1,425.00	Disallowed
80002-000	Pending Dosmil Veinty Nueve	Dominican Republic	G	1,425.00	Disallowed
80281-000	Pending Cinco	Dominican Republic	G	1,425.00	Disallowed
80286-000	Pending Seis	Dominican Republic	G	1,425.00	Disallowed
80288-000	Pending Siete	Dominican Republic	G	1,425.00	Disallowed
80339-000	Pending Ocho	Dominican Republic	G	1,425.00	Disallowed
80341-000	Pending Nueve	Dominican Republic	G	1,425.00	Disallowed
80385-000	Pending Diez	Dominican Republic	G	1,425.00	Disallowed
80397-000	Pending Once	Dominican Republic	G	1,425.00	Disallowed
80403-000	Pending Doce	Dominican Republic	G	1,425.00	Disallowed
80409-000	Pending Trece	Dominican Republic	G	1,425.00	Disallowed
80632-000	Pending Catorce	Dominican Republic	G	1,425.00	Disallowed
80634-000	Pending Quince	Dominican Republic	G	1,425.00	Disallowed
80638-000	Pending Diez Y Seis	Dominican Republic	G	1,425.00	Disallowed
80669-000	Pending Diez Y Siete	Dominican Republic	G	1,425.00	Disallowed
80674-000	Pending Diez Y Ocho	Dominican Republic	G	1,425.00	Disallowed
80685-000	Pending Mil Once	Dominican Republic	G	1,425.00	Disallowed
80688-000	Pending Mil Doce	Dominican Republic	G	1,425.00	Disallowed
80693-000	Pending Mil Trece	Dominican Republic	G	1,425.00	Disallowed
80699-000	Pending Mil Catorce	Dominican Republic	G	1,425.00	Disallowed
80704-000	Pending Mil Quince	Dominican Republic	G	1,425.00	Disallowed
80757-000	Pending Diez Y Nueve	Dominican Republic	G	1,425.00	Disallowed
80766-000	Pending Venite	Dominican Republic	G	1,425.00	Disallowed
80771-000	Pending Veinte Y Uno	Dominican Republic	G	1,425.00	Disallowed
80795-000	Pending Mil Veintinueve	Dominican Republic	G	1,425.00	Disallowed
80858-000	Pending Veinte Y Dos	Dominican Republic	G	1,425.00	Disallowed
80897-000	Pending Mil Treintaynueve	Dominican Republic	G	1,425.00	Disallowed
80914-000	Pending Veinte Y Tres	Dominican Republic	G	1,425.00	Disallowed
80926-000	Pending Veinte Y Cinco	Dominican Republic	G	1,425.00	Disallowed
80940-000	Pending Mil Cuarentaynueve	Dominican Republic	G	1,425.00	Disallowed
80941-000	Pending Veinte Y Siete	Dominican Republic	G	1,425.00	Disallowed
80951-000	Pending Veinte Y Ocho	Dominican Republic	G	1,425.00	Disallowed
80960-000	Pending Veinte Y Nueve	Dominican Republic	G	1,425.00	Disallowed
80970-001	Pending Treinta	Dominican Republic	G	1,425.00	Disallowed
81933-000	Pending Tresmil Siete	Dominican Republic	G	1,425.00	Disallowed
81948-000	Pending Dos Mil Setenta Y Nueve	Dominican Republic	G	1,425.00	Disallowed
81956-000	Pending Tresmil Nueve	Dominican Republic	G	1,425.00	Disallowed
82004-000	Pending Tresmil Once	Dominican Republic	G	1,425.00	Disallowed
82020-000	Pending Tresmil Catorce	Dominican Republic	G	1,425.00	Disallowed
82033-000	Pending Tresmil Quince	Dominican Republic	G	1,425.00	Disallowed

Claim Number	Claimant Name	Country of Residence ¹	Objection Code ²	Amount of Claim as Filed	Proposed Allowed Amount
82172-000	Pending Dos Mil Ochenta Y Nueve	Dominican Republic	G	\$ 1,425.00	Disallowed
82355-000	Pending Dos Mil Noventa Y Nueve	Dominican Republic	G	1,425.00	Disallowed
82513-000	Pending Mil Sesentaynueve	Dominican Republic	G	1,425.00	Disallowed
82556-000	Pending Mil Setentaynueve	Dominican Republic	G	1,425.00	Disallowed
82599-000	Pending Mil Ochentaynueve	Dominican Republic	G	1,425.00	Disallowed
82641-000	Pending Mil Noventaynueve	Dominican Republic	G	1,425.00	Disallowed
82643-000	Pending Mil Cien	Dominican Republic	G	1,425.00	Disallowed
82790-000	Pending Tresmil Diecinueve	Dominican Republic	G	1,425.00	Disallowed
82820-000	Pending Quinientos Cuarenta Y Seis	Dominican Republic	G	1,425.00	Disallowed
82940-000	Pending Mil Dieciocho	Dominican Republic	G	1,425.00	Disallowed
83461-000	Pending Mil Cincuentaysiete	Dominican Republic	G	1,425.00	Disallowed
83539-000	Pending Tresmil Veintinueve	Dominican Republic	G	1,425.00	Disallowed
83588-000	Pending Tres Mil Quinientos Veintisiete	Dominican Republic	G	1,425.00	Disallowed
83598-000	Pending Mil Ciennoventaynueve	Dominican Republic	G	1,425.00	Disallowed
86209-000	Pending Dos Mil Ciento Noventa Y Nueve	Dominican Republic	G	1,425.00	Disallowed
86724-000	Pending Mil Doscientosnoventaynueve	Dominican Republic	G	1,425.00	Disallowed
87125-000	Pending Mil Rescientostreintayuno	Dominican Republic	G	1,425.00	Disallowed
87234-000	Pending Dios Mil Doscientos Once	Dominican Republic	G	1,425.00	Disallowed
87452-000	Pending Dos Mil Pending Dos Mil Doscientos Diecisiete	Dominican Republic	G	1,425.00	Disallowed
88746-000	Pending Mil Trescientosnoventaynueve	Dominican Republic	G	1,425.00	Disallowed
88849-000	Pending Treinta Y Nueve	Dominican Republic	G	1,425.00	Disallowed
89043-000	Pending Cuarenta Y Nueve	Dominican Republic	G	1,425.00	Disallowed
89055-000	Pending Cincuenta	Dominican Republic	G	1,425.00	Disallowed
91112-000	Pending Mil Cuatrocientostreintayoch	Dominican Republic	G	1,425.00	Disallowed
91129-000	Pending Mil Pending Mil Cuatrocientoscurenta	Dominican Republic	G	1,425.00	Disallowed
102431-000	Pending Dosmil Cuatrociento Veinty Seis	Dominican Republic	G	1,425.00	Disallowed
105974-000	Pending Dosmil Doscientos Noventa Y Nueve	Dominican Republic	G	1,425.00	Disallowed
106906-000	Pending Dosmil Cuatrocientos Noventa Y Nueve	Dominican Republic	G	1,425.00	Disallowed
106931-000	Pending Dosmil Quinientos	Dominican Republic	G	1,425.00	Disallowed
107072-000	Pending Dosmil Trescientos Cuarenta Y Cuatro	Dominican Republic	G	1,425.00	Disallowed
107243-000	Pending Tresmil Treinta Y Cuarenta	Dominican Republic	G	1,425.00	Disallowed

Notes

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

2: Objection Codes are defined as follows:

Objection Code	Description
A	Multiple Participants claimed same User Account.
B	User Account(s) deleted without adequate explanation or documentation.
C	User Account(s) added without adequate explanation or documentation.
D	Transaction modified without adequate explanation or documentation.
E	Transaction added without adequate explanation or documentation.
F	Additional claim component added without adequate explanation or documentation.
G	The claim is duplicative of a later filed claim by the Participant.