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April 23, 2014

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East Suite 350  
St Paul Minnesota 55101-2147

RE: **Request for Reconsideration of the Minnesota Department of Commerce**  
Docket No. P6922/NA-14-242

Dear Dr. Haar:

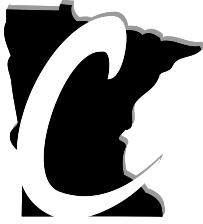
Attached is a Request by the Department of Commerce for Reconsideration of the April 18, 2014 Order granting TELEX FREE, LLC a certificate of authority to provide long distance services on a statewide basis.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ DIANE DIETZ  
Rate Analyst

DD/lt  
Attachment



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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

REQUEST FOR RECONSIDERATION OF THE  
MINNESOTA DEPARTMENT OF COMMERCE

DOCKET No. P6922/NA-14-242

**I. BACKGROUND**

On March 26, 2014, TELEX FREE, LLC (TELEX FREE) filed an application for certification to operate as a long distance carrier in the current docket.

On April 3, 2014, the Department of Commerce (Department) filed comments recommending approval of the application.

On April 18, 2014 the Public Utilities Commission (Commission) issued its Order granting TELEX FREE, LLC a certificate of authority to provide long distance services on a statewide basis.

On April 18, 2014, the Department received an email message from TELEX FREE's Company representative – Joseph Isaacs. In the email message, Mr. Isaacs withdrew as consultant for TELEX FREE and stated that TELEX FREE had:

misrepresented their intentions, their business model, their customer bases and the source of all of their revenue, income and profits declared on their 2013 financial statements that were provided to this commission for the approval of their petitions. . . This Monday, April 14, 2014 TELEX FREE filed for Chapter 11 bankruptcy in Nevada. . . On Tuesday, April 15, 2014 the Massachusetts SEC (through the Commonwealth's Secretary of State Office) filed a civil case against the company accusing them of running a billion dollar Ponzi scheme for selling unregistered securities (the heart of all of their revenues). On Wednesday the United States Securities & Exchange Commission filed a sealed

case against the company, their principles and top four promoters of the alleged fraud.

The document submitted to the Department, by email, is attached to these comments.

## II. STATUTORY AUTHORITY

Minn. Stat. section 237.16, subd. 1(b) and section 237.74, subd. 12 mandate that companies obtain a certificate of authority prior to offering regulated telecommunications services in Minnesota.

Minn. Rules pt. 7812.0300, subpt. 2 includes the following requirements for certification to provide long distance service in Minnesota:

- E. a description of the applicant's business history, including: (1) the date the business was first organized, the dates of subsequent reorganizations, and the date the applicant started providing telephone or other telecommunications services; and (2) the applicant's experience providing telephone company services or telecommunications services in Minnesota and other jurisdictions, including the types of services provided, the dates and nature of state or federal authorization to provide those services, the length of time it has provided those services, ***and pending or completed criminal, civil, or administrative action taken against the applicant by a state or federal authority***, including any settlements, in connection with the applicant's provision of telephone company services or telecommunications services;
- F. ***for the most recent fiscal year, a financial statement of the applicant, consisting of a balance sheet, an income statement, notes to the financial statement, and, if available, an annual report;*** and
- N. ***other information needed to demonstrate that the applicant has the managerial, technical, and financial ability to provide the services it intends to offer consistent with the requirements of this chapter and applicable law.***

*Emphasis added.*

*Minn. Rules pt. 7812.0300, Subp. 3. (Decision criteria) states in part:*

A certificate to provide local facilities-based service must not be granted unless the applicant establishes that it has the financial, technical, and managerial capability to provide the services described in its petition consistent with the public interest, including the requirements of this chapter, Minnesota Statutes, section [237.16](#), and all other applicable laws, rules, and commission orders. The decision to grant a certificate under this part must be based on the following criteria:

- C. the extent to which the applicant has had any civil, criminal, or administrative action taken against it in connection with the applicant's provision of telecommunications services;*
- D. the applicant's cash reserves and the extent to which those reserves or cash equivalent are adequate to meet the petitioner's start-up costs and expenses;...*
- H. any other factors relevant to determining the applicant's technical, managerial, and financial capability to provide the reasonably adequate services, as described in its petition, consistent with the public interest, including the requirements of this chapter, Minnesota Statutes, section 237.16, and all other applicable laws, rules, and commission orders.*

Emphasis added.

### **III. COMMENTS**

The letter and attachment submitted to the Department on April 18, 2014, via email from TELEX FREE's former representative, Joseph Isaacs, indicates that TELEX FREE provided false and misleading information to the Department in its application for certification to provide long distance service. The allegedly misleading information provided in TELEX FREE's application relate to the basic filing requirements of Minn. Rules pts. 7812.0300, subpt. 2 (E, F, and N): civil and administrative action pending, financial statements, and information relating to the technical, managerial and financial capabilities of TELEX FREE in support of its application for certification. The allegedly misleading information in the TELEX FREE's application relate to the decision criteria in Minn. Rules pt. 7812.0300, subpt. 2 (C, D, and H). If the Department had known this information, it would not have recommended approval of the application for certification to provide long distance service, without further investigation.

### **IV. RECOMMENDATION**

In consideration of the new information provided by TELEX FREE's former representative on April 18, 2014, the Department believes that TELEX FREE should be denied authority to provide long distance service in Minnesota until it demonstrates that the information provided in its application is accurate. The Department requests that the Commission reconsider its decision regarding the application for certification filed by TELEX FREE, LLC and deny the application, without prejudice. If TELEX FREE is able demonstrate that the information it has provided in its application is accurate, its request for a certificate of authority to operate in Minnesota will be brought back before the Commission for a decision.

# ISG telecom

April 18, 2014

To: Commission Secretaries  
ALL United States Public Utility (Service) Commissions  
Re: TelexFREE, LLC's petitions (applications) to provide telecommunications services  
in your state.

Dear Sir:

It has come to my attention this week that my client TelexFREE, LLC, whom has applied for or has recently been approved to provide telecommunications services in your state, has misrepresented their intentions, their business model, their customer base and the source of all of their revenue, income and profits declared on their 2013 financial statements that were provided to this commission for the approval of their petitions (applications in some jurisdictions).

In my twenty years as a consultant to telecommunications carriers and applicants, I have never experienced a client who provided such false and misleading information. Apparently the affidavits signed by the ex-managing member, Jim Merrill were not truthful either. Both ISG-Telecom staff and the Commissions have been duped by their misleading information.

This Monday, April 14, 2014 TelexFREE filed for Chapter 11 bankruptcy in Nevada to avoid returning over \$1 Billion dollars to its representative. On Tuesday April 15, 2014 the Massachusetts SEC (through the Commonwealth's Secretary of State Office) filed a civil case against the company accusing them of running a billion dollar Ponzi scheme for selling unregistered securities (the heart of all of their revenues). On Wednesday the United States Securities & Exchange Commission filed a sealed case against the company, their principles and top four promoters of the alleged fraud. The SEC also obtained a full asset freeze of the company and all of its principles the same day in District court in Massachusetts. The case was unsealed yesterday afternoon (see attached).

In light of these recent events this week, I can no longer consult to this type of entity or its principles. Morals, ethics and principles prevail as do my 20 year relationship with staff at the various PUC's around the county.

All future correspondence regarding TelexFREE, LLC should be directed directly to Mr. Jim Merrill, ex- managing member and 50% owner at the company at 225 Cedar Hill Street, Suite 200, Marlborough, MA 01752. Please disassociate my firm with these alleged crooks.

Sincerely,

Joseph Isaacs

**4274 Enfield Court, Palm Harbor, Florida 34685**  
**Regulatory Consultants and Attorneys**  
**Phone: (727) 738-5553 Facsimile: (727) 939-2672**  
**[www.isg-telecom.com](http://www.isg-telecom.com)**

UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

_____ )	
SECURITIES AND EXCHANGE COMMISSION, )	
)	
Plaintiff, )	
)	
v. )	Case No.
)	
TELEXFREE, INC., )	
TELEXFREE, LLC, )	JURY TRIAL DEMANDED
JAMES M. MERRILL, )	
CARLOS N. WANZELER, )	
STEVEN M. LABRIOLA, )	
JOSEPH H. CRAFT, )	
SANDERLEY RODRIGUES DE VASCONCELOS, )	
SANTIAGO DE LA ROSA, )	
RANDY N. CROSBY and )	
FAITH R. SLOAN, )	
)	
Defendants, )	
)	
and )	
)	
TELEXFREE FINANCIAL, INC., )	
TELEXELECTRIC, LLLP and )	
TELEX MOBILE HOLDINGS, INC., )	
)	
Relief Defendants. )	
_____ )	

**COMPLAINT**

Plaintiff Securities and Exchange Commission (“the Commission”) alleges the following against defendants TelexFree, Inc., TelexFree, LLC, James M. Merrill, Carlos N. Wanzeler, Steven M. Labriola, Joseph H. Craft, Sanderley Rodrigues de Vasconcelos, Santiago De La Rosa, Randy N. Crosby, and Faith R. Sloan, and relief defendants TelexFree Financial, Inc., TelecElectric LLLC, and Telex Mobile Holdings, Inc., and hereby demands a jury trial:

**PRELIMINARY STATEMENT**

1. This matter involves an illegal pyramid scheme operated by TelexFree, Inc. and TelexFree, LLC (collectively, “TelexFree”) and the eight individual defendants: four principals of TelexFree and four primary promoters of TelexFree. TelexFree is a Massachusetts-based “multi-level marketing” company that purports to be in the business of selling local and international telephone service plans that use “voice over internet” (“VoIP”) technology. Since at least November 2012, TelexFree and its principals, Merrill, Wanzeler, Labriola and Craft, acting through promoters such as Rodrigues de Vancelos, De La Rosa, Crosby and Sloan, have raised more than \$300 million, largely from the Brazilian and Dominican immigrant communities in Massachusetts and twenty other states, through a fraudulent and unregistered offering of securities. (TelexFree publicly claims to have raised more than \$1 billion, but documentation for that claim has not been made public.) The securities take the form of “memberships” that promise substantial returns – 200% per year or more – for becoming promoters of the business. TelexFree promises to pay promoters for: (a) placing duplicative TelexFree ads on internet sites – a process which, by itself, generates no revenue; and (b) recruiting other investors who pay the membership fees that constitute the lion’s share of monies taken in by TelexFree. Until changes to its compensation plan in March 2014, TelexFree did not require promoters to sell its VoIP product in order to qualify for payments.

2. Despite the misleading appearance of having a legitimate VoIP business, the defendants are actually operating an elaborate pyramid scheme. Documents available to date indicate that its VoIP sales revenues – approximately \$1.3 million – have generated barely 1% of the nearly \$1.1 *billion* needed to honor its promises to promoters for placing internet ads. As a

result, in classic pyramid fashion, TelexFree is paying its older investors, not with revenue raised from the sale of its VoIP product, but with money received from newer investors.

3. TelexFree has been a money-making machine for the defendants. The company's financial records indicate that, since mid-November 2013, TelexFree has transferred approximately \$30 million to be transferred from TelexFree operating accounts to themselves and to affiliated companies in the past few months to accounts owned and controlled by TelexFree or the individual defendants. Tens of millions of additional investor funds received by TelexFree are presently unaccounted for.

4. The defendants are continuing to enroll new investors every day, but it is clear that the pyramid has collapsed. On March 9, TelexFree changed its compensation plan so that promoters would now be required to sell its VoIP product in order to qualify for the payments that TelexFree had previously promised to pay them. The rule change generated a storm of protests from promoters who cannot recover their money. On April 1, dozens of promoters descended on the company's office in Marlborough, Massachusetts to complain – in part because, as one of them told the press, the VoIP service is “almost impossible to sell”. Then on April 14 (yesterday), TelexFree filed for bankruptcy in Nevada under Chapter 11, admitting that it cannot meet its obligations with its VoIP revenues and seeking authority to reject all its current obligations to promoters.

5. Through the activities alleged in this Complaint, the defendants have engaged and are still engaged in: (a) fraudulent or deceptive conduct in connection with the purchase or sale of securities, in violation of Section 10(b) of the Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 thereunder; (b) fraud in the offer or sale of securities, in violation of Section 17(a) of



the Securities Act of 1933 (“Securities Act”); and (c) the offer or sale of unregistered securities, in violation of Section 5 of the Securities Act.

6. To halt the defendants’ ongoing unlawful conduct, maintain the status quo, and preserve any remaining assets for defrauded investors before entry of a final judgment, the Commission seeks emergency equitable relief, including a temporary restraining order and preliminary injunction, to: (a) prohibit the defendants from continuing to violate the relevant provisions of the federal securities laws; (b) freeze the defendants’ and the relief defendants’ assets; (c) require the defendants and relief defendants to repatriate all proceeds of the fraud that are now located abroad; (d) require the defendants and relief defendants to submit an accounting of investor funds and other assets in their possession; (e) prevent the defendants and relief defendants from destroying relevant documents; and (f) authorize the Commission to undertake expedited discovery.

7. The Commission also seeks: (a) a permanent injunction prohibiting the defendants from further violations of the relevant provisions of the federal securities laws; (b) disgorgement of the defendants’ and relief defendants’ ill-gotten gains, plus pre-judgment interest; and (c) civil penalties due to the egregious nature of the defendants’ violations.

### **JURISDICTION**

8. The Commission seeks a permanent injunction and disgorgement pursuant to Section 20(b) of the Securities Act [15 U.S.C. §77t(b)] and Section 21(d)(1) of the Exchange Act

[15 U.S.C. §78u(d)(1)]. The Commission seeks the imposition of civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)].

9. This Court has jurisdiction over this action pursuant to Sections 20(d) and 22(a) of the Securities Act [15 U.S.C. §§77t(d), 77v(a)] and Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§78u(d), 78u(e), 78aa]. Venue is proper in this District because TelexFree, Inc. and TelexFree, LLC have their principal place of business in Massachusetts, and defendants Merrill, Wanzeler, Merrill, Labriola, and De La Rosa live in Massachusetts.

10. In connection with the conduct described in this Complaint, the defendants directly or indirectly have made use of the mails or the means or instruments of transportation or communication in interstate commerce.

11. The defendants' conduct has involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and has resulted in substantial loss, or significant risk of substantial loss, to other persons.

#### **DEFENDANTS**

12. TelexFree, Inc. is a Massachusetts corporation with its principal place of business in Marlborough, Massachusetts. Prior to a name change in February 2012, it was known as Common Cents Communications, Inc. ("Common Cents"), which was incorporated by defendants Wanzeler, Merrill and Labriola in 2002. TelexFree, LLC is a Nevada corporation with its principal place of business at the same address in Marlborough. It was incorporated by Wanzeler, Merrill, and Carlos Costa (a resident of Brazil) in July 2012, and it registered to do

business in Massachusetts in April 2013. TelexFree, Inc. and TelexFree, LLC have never been registered with the Commission, nor have they ever registered or attempted to register any offering of securities under the Securities Act or any class of securities under the Exchange Act. On April 14, 2014, TelexFree, Inc. and TelexFree, LLC filed for bankruptcy protection in Nevada under Chapter 11.

13. James M. Merrill, age 52, lives in Ashland, Massachusetts. He is the co-owner of TelexFree, Inc. and TelexFree, LLC. Prior to the bankruptcy filing on April 14, 2014, he was also the president of TelexFree, Inc. He has appeared in many TelexFree promotional videos that have been posted on the internet. He is the owner of Cleaner Image Associates, Inc., a small commercial cleaning business that he has operated from his home in Ashland since 1986.

14. Carlos N. Wanzeler, age 45, lives in Northborough, Massachusetts. He is the co-owner and treasurer of TelexFree, Inc. and the co-owner of TelexFree, LLC. He has appeared in many TelexFree promotional videos that have been posted on the internet. He is the owner of Brazilian Help, Inc. ("Brazilian Help"), a Massachusetts corporation with its principal place of business at TelexFree's address in Marlborough. He is also the owner of Above & Beyond the Limit, LLC, a New Mexico corporation.

15. Steven M. Labriola, age 53, lives in Northbridge, Massachusetts. He is the international sales director of TelexFree and has appeared in many TelexFree promotional videos that have been posted on the internet. He was a founding director of Common Cents. He also operates Gyver Work, a small computer repair and maintenance business located in Southborough, Massachusetts.

16. Joseph H. Craft, age 50, lives in Boonville, Indiana. He is a Certified Public Accountant with offices in Indiana and Kentucky. He is the chief financial officer of TelexFree, Inc. and TelexFree, LLC and prepares the company's financial statements. He has been the chief financial officer of other multi-level marketing companies.

17. Sanderley Rodrigues de Vasconcelos, age 42, previously lived in Revere, Massachusetts, and now lives in Davenport, Florida. He is one of the most successful promoters of TelexFree, especially among the Brazilian community in Massachusetts and elsewhere. He has appeared in TelexFree promotional videos that have been posted on the internet (he posted at least one himself), and he publicly claims to be the first U.S. promoter to become a millionaire. He is the owner of WWW Global Business Inc., a Massachusetts corporation that he formed in February 2013. In 2007, he settled charges brought by the Commission for operating a fraudulent pyramid scheme known as Universo FoneClub Corporation. He was permanently enjoined from violating Section 10(b) of the Exchange Act and Rule 10b-5, and Sections 5(a), 5(c) and 17(a) of the Securities Acts. He was also ordered to pay approximately \$1.8 million of disgorgement.

18. Santiago De La Rosa, age 42, lives in Lynn, Massachusetts. He is one of the most successful promoters of TelexFree, especially among the Dominican community in Massachusetts and elsewhere. He has appeared in TelexFree promotional videos that have been posted on the internet. He is the owner of Magica Media Corp., a Massachusetts corporation that he formed in March 2013.

19. Randy N. Crosby, age 51, lives in Alpharetta, Georgia. He is one of the most successful promoters of TelexFree and has appeared in TelexFree promotional videos that have

been posted on the internet. He has also promoted TelexFree through a website called “everybodygetspaidweekly.biz”.

20. Faith R. Sloan, age 51, lives in Chicago, Illinois. She is one of the most successful promoters of TelexFree and has appeared in promotional videos for TelexFree that have been posted on the internet. She has also promoted TelexFree through a website called “telexfreepower.com”.

### **RELIEF DEFENDANTS**

21. TelexFree Financial, Inc. (“TelexFree Financial”) is a Florida corporation with its principal place of business in Coconut Creek, Florida. It was incorporated by Craft on December 26, 2013. Its officers and directors are Wanzeler and Merrill, and Wanzeler is its registered agent. On December 30 and December 31, 2013, it received wire transfers totaling \$4,105,000 from TelexFree, Inc. and TelexFree, LLC. On April 14, 2014, TelexFree Financial filed for bankruptcy protection in Nevada under Chapter 11.

22. TelexElectric, LLLP (“TelexElectric”) is a Nevada limited partnership with its principal place of business in Las Vegas, Nevada. It was formed on December 2, 2013. Its general partners are Wanzeler and Merrill. Financial statements prepared by Craft indicate that TelexFree made a \$2,022,329 “loan” to TelexElectric.

23. Telex Mobile Holdings, Inc. (“Telex Mobile”) is a Nevada corporation with its principal place of business in Las Vegas, Nevada. It was incorporated on November 26, 2013. Its officers are Wanzeler and Merrill. Financial statements prepared by Craft indicate that TelexFree made a \$500,870 “loan” to Telex Mobile.

## **STATEMENT OF FACTS**

### **Background of TelexFree**

24. In the late 1990s, Wanzeler and Merrill became sales agents for WorldxChange, one of many companies then offering inexpensive long-distance phone service through “10-10” access numbers. (To make a call, customers dialed the company’s seven-digit access number and then dialed the phone number they wanted to reach.) WorldxChange was a multi-level marketing company using sales agents to recruit other sales agents as well as customers. Wanzeler and Merrill recruited Labriola as one of their marketers. In 2002, the three of them incorporated Common Cents as a vehicle for their sales efforts on behalf of WorldxChange. Wanzeler did most of the company’s recruiting through his contacts in Brazil and the Brazilian community in Massachusetts. In 2003, however, the three stopped working with WorldxChange after it was acquired by another company and ceased its multi-level marketing.

25. In 2005, Wanzeler began selling analog telephone adapters – devices that link a traditional telephone line with a digital network or VoIP service. Most of his customers were in Brazil, and Wanzeler used the name “Brazilian Help” in the United States and “Disk A Vontade Telefonica” (Portuguese for “Call Unlimited”) in Brazil. The business relied primarily on television and radio advertisements in Brazil to attract customers, because an attempt to employ WorldxChange’s multi-level marketing model was not successful. The monthly charge was \$49.90. In 2007, Wanzeler incorporated Brazilian Help in Massachusetts. Merrill assisted Wanzeler but never held a title or an ownership interest in Brazilian Help.

26. In early 2012, Carlos Costa, who had been Wanzeler’s top sales agent in Brazil, suggested that they start recruiting customers through advertisements on the internet. Taking

that suggestion, Wanzeler and Merrill changed the name of Common Cents to TelexFree, Inc. They adopted the name “99TelexFree” for their VoIP service, which they continued to price at \$49.90 per month. Wanzeler, Costa, and associates in Brazil created a website called “telexfree.com”. The site content was written in Portuguese and translated into English. In July 2012, Wanzeler, Merrill and Costa formed TelexFree, LLC, ostensibly to handle transactions outside Massachusetts.

27. In November 2012, TelexFree began operations in the United States.

### **The Structure of the Pyramid**

#### **Emphasis on Recruiting New Members**

28. TelexFree purports to be in the business of providing its “99TelexFree” VoIP service, which costs \$49.90 per month. Customers register their phone numbers with TelexFree and receive software that enables their computers to place phone calls through the company’s network servers in Marlborough.

29. It is no secret, however, that the primary business of TelexFree is recruiting new members and paying them to promote the company by placing internet advertisements and recruiting more members. As Merrill stated in a press release dated March 1, 2013:

In addition to providing an excellent service at a very reasonable price, the real “secret sauce” of our success is our compensation plan. We have developed a unique system which allows every one of our independent representative [sic] the ability to make money every week. We actually pay our representatives weekly if they follow our system and advertise our service on the Internet.

30. TelexFree's business model is straightforward: in return for modest membership fees, it promises significant financial returns if promoters place meaningless ads for its VoIP product on the internet and recruit others to do the same.

31. To reach out to new members, TelexFree relies on its company website and on websites maintained by its leading promoters. The internal portion of the company website (usually called the "back office") contains marketing materials that promoters may download and use for their own websites and other recruiting efforts. TelexFree monitors the activities of its promoters, who are not permitted to use any marketing materials that have not been approved by the company. If TelexFree objects to something posted by a promoter, the company may limit the promoter's access to the company's internal website or even revoke the promoter's registration. In addition, the individual defendants appear at public seminars, many of which are captured on videos that are posted on the internet, including sites such as "YouTube". Examples of YouTube promotional videos featuring statements by one or more of the individual defendants include:

December 14, 2012: "Telexfree en Espanol – Santiago De La Rosa."

March 13, 2013: "TelexFree Steve Labriola – Atlanta Sheraton."

March 13, 2013: "TelexFree USA first Millionaire Sann Rodriguez [sic] Tells His Story." The video was posted by Sloan.

April 20, 2013: "TelexFree Webinar Presentation + Leaders in HD." The presentation was by Crosby.

June 12, 2013: "TelexFree Faith Sloan TelexFree Global Power Team Webinar."

June 20, 2013: "TelexFree Investigation with President James Merrill, Vice President Carlos Wanzeler and Steve Labriola."



June 21, 2013: “Testimonio Santiago de la Rosa Vision telexfree.”

July 31, 2013: “TelexFree USA – Los Angeles 1.” The video, which was posted by Rodrigues, includes remarks by Merrill, Wanzeler and Labriola.

August 1, 2013: “TelexFree Corporate Speakers at Newport Beach Extravaganza.” The video includes comments by Merrill, Wanzeler and Labriola.

August 17, 2013: “Telexfree Intervención y testimonios Sann Rodriguez y Santiago De La Rosa.”

October 16, 2013 “TelexFree Business Presentation – En Espanol con Santiago De La Rosa.”

January 29, 2014: “TelexFree Steve Labriola Corporate Update Call 1/29/14.”

April 6, 2014 “TelexFree Steve Labriola Lots of Questions I Have Answers.”

### **Membership Options**

32. TelexFree charged \$50 for an investor to become a “member” or “partner”. By itself, a membership was meaningless. The only way for an investor to make money was to become a “promoter” who placed internet ads, recruited new members, and/or sold the VoIP service.

33. Prior to the rule change on March 9, 2014, TelexFree had two primary programs whereby promoters could make money by placing internet ads:

a. The “AdCentral” program cost \$339 (\$50 membership fee plus \$289 contract fee) for a 52-week contract. Promoters in the AdCentral program received ten one-month packages of “99TelexFree” VoIP service and were required to place one internet ad per day. For each week that AdCentral promoters placed the required number of ads, they received one additional VoIP package. AdCentral promoters who posted the necessary ads were promised

a weekly \$20 payment, or \$1,040 for the year. An AdCentral promoter who completed one 52-week contract was thus supposed to receive \$1,040 – an annual return of 207% on an investment of \$339.

b. The “AdCentral Family” program cost \$1,425 (\$50 membership fee plus \$1,375 contract fee) for a 52-week contract. Promoters in the AdCentral Family program received fifty one-month packages of VoIP service and were required to place five internet ads per day. For each week that AdCentral Family promoters placed the required number of ads, they received five additional VoIP packages. AdCentral Family promoters who posted the necessary ads were promised a weekly \$100 payment, or \$5,100 for the year. An AdCentral Family promoter who completed one 52-week contract was thus supposed to receive \$5,200 – an annual return of 265% on an investment of \$1,425.

34. New members could pay the membership fee by credit card, or they could pay the promoter who recruited them (whose internal account with TelexFree would be debited in the amount of the fee). New members signed up through their promoter’s page on the internal “back office” portion of the TelexFree website, registered their phone number, and received a personal log-in number.

#### **Incentives for Promoters**

35. Prior to the rule change on March 9, 2014, TelexFree employed a multi-level marketing structure in two respects. First, it had several programs whereby promoters were promised commissions simply for recruiting new AdCentral or AdCentral Family members:

- a. Promoters were promised a one-time bonus of \$20 for each new AdCentral member and \$100 for each new AdCentral Family member they recruited.
- b. Promoters who recruited two additional promoters were promised a bonus of \$20 for each direct or indirect participant in their “network”, up to a maximum of \$440.
- c. Under the “Team Builder Plan”, AdCentral Family promoters who recruited ten AdCentral Family members, each of whom sold five VoIP packages (to themselves or to others), were promised 2% of TelexFree’s net billing in the following month, up to a maximum of \$39,600.
- d. Promoters were promised 2% of all payments to each participant in their network who had at least once active VoIP customer (which could be the participants themselves), down to six levels of the promoters’ network.

36. Second, TelexFree offered several commission programs for promoters based on sales of the “99TelexFree” VoIP service:

- a. Promoters were promised a commission of 90% (or \$44.90) for the initial VoIP package sold to a retail customer they recruited.
- b. Promoters were promised a commission of 10% (or \$4.99) per month for each direct participant who renewed the VoIP service and 2% (or \$0.99) per month for each indirect participant who renewed the VoIP service, down to the sixth level of the promoters’ network.
- c. Promoters were promised a commission of 2% of all sales of VoIP packages by direct or indirect participants in their network, down to the sixth level of their network.

37. Promoters received their own page in the website's "back office", so that they could keep track of the participants in their network.

**The Sole Requirement for Getting Paid: Posting Internet Ads**

38. Prior to the rule change on March 9, 2014, there was no requirement that AdCentral promoters actually sell any VoIP packages in order to receive their weekly payments. Indeed, TelexFree and its promoters repeatedly emphasized that AdCentral members did not have to sell anything -- they simply had to post the internet ads. The slogan repeated over and over was "everybody gets paid weekly."

a. One of the marketing presentations that appeared on the company's website was entitled "TelexFREE: Advertise & Technology." The presentation proclaimed, "Work over the Internet Posting ads daily." Only one slide mentioned the VoIP service; the rest described the various membership and commission programs in detail.

b. When telling his success story in an internet video on March 13, 2013, Rodrigues stated, "Just place your ads every day and everyone gets paid weekly." He also asked and answered the following question: "What company in the country, in the world, you can make money ... you don't need to sell anything? Now it exists. TelexFree."

c. Crosby stated in an internet video on April 20, 2013, "What if you were with a company that would pay you just to advertise the service? ... They're paying us to advertise the service. It's just that simple." He added that members do not have to "worry about selling to the public."

d. Sloan stated in an internet video on June 12, 2013, "Place your ads, and you go about your day. You do that for seven days a week, you get paid every single week." She added, "You don't have to build. You don't have to sell."

e. Defendants often characterized the payments of \$20 per week to AdCentral promoters and \$100 per week to AdCentral Family promoters as the company's repurchase of the VoIP packages they received each week (at \$20 each).

39. Promoters were required to post ads written by TelexFree and found on the "back office" portion of the company website. Most of the ads offer a 60-minute free trial of the VoIP service. The "back office" also contains links to many external websites where the ads can be posted. Using a computer, the promoter copies the ad, pastes it on the external website, and returns to the "back office" to "validate" that the ad was placed.

40. TelexFree and its promoters emphasized that the process of placing the ads is extremely simple.

a. One version of the marketing presentation on the company website stated, "TelexFree turnkey marketing system makes internet advertising simple & duplicatelable [sic]."

b. Another version of the marketing presentation on the company website stated: "We have it all computerized [sic], with only 3 steps, in your virtual office."

c. Crosby stated in his April 2013 video, "It takes less than thirty seconds to place each ad. Most people do it in 15 to 20 seconds."

d. Sloan stated in her June 2013 video, "You post your ads. Take you a minute and a half. Three minutes. Five minutes max."

41. In fact, promoters who wanted to place many ads per day could take advantage of third-party services that automated the ad posting and validating process for a small fee.

42. The sheer volume of virtually identical advertisements for TelexFree's VoIP service rendered them largely meaningless, especially because anyone who used "telexfree" as an internet search term would be led to the company's own website. In early April 2014, one website, Adpost.com, contained more than 33,000 ads for TelexFree, while another, ClassifiedsGiant.com, contained more than 25,000 ads posted just since February 1, 2014.

43. TelexFree and its promoters repeatedly emphasized that promoters who posted ads and recruited more members could earn substantial amounts of money.

a. One version of the marketing presentation on the company website contained slides indicating that an AdCentral promoter could clear \$2,296 per year on a \$289 investment, that an Ad Central Family promoter could clear \$11,599 per year on a \$1,375 investment, and that a Team Builder promoter could receive as much as \$39,600 per year.

b. Another version of the marketing presentation on the company website stated, "Earn Income Down to Infinity."

c. Telexfree stated in a March 1, 2013 press release that 23 promoters had already become millionaires in Brazil.

d. Crosby stated in his April 2013 video, "Dozens and dozens of people have become millionaires because of this." He added, "How deep does it go? It pays down to infinity."

e. Labriola stated in his January 2014 video, "There are some people that are making incredible money in this."

**Material Misrepresentations and Omissions about TelexFree**

44. In all their statements to the public through the company website and internet videos, the defendants never disclosed that revenues from the VoIP business were very small (see paragraph 50 below) and that they were actually operating a pyramid scheme.

45. In addition, TelexFree and its promoters made numerous false public statements about the company, its founders, and its business:

a. The TelexFree website, in a section entitled “Founder”, states that Merrill received a B.A. in Economics from Westfield State University. The statement is false. Merrill dropped out of Westfield State after only two years.

b. The “Founder” section of the TelexFree website includes a photo of Merrill standing in front of a large three-story building, with the caption “Mr. Merrill in front of the headquarters of Telexfree in the USA.” At least two versions of the marketing presentation on the company website contained a photo of Merrill and a photo of the same building with the caption “The Company HS: United States.” The use of the building photo is misleading. TelexFree, Inc. does not own or occupy the entire building. In fact, it originally shared a single suite (consisting of a receptionist, conference rooms, and cubicles) with 28 other companies. Only in December 2013 did it move into its own suite, which occupies a portion of the first floor. TelexFree, LLC has no physical office at all, just a mailing address in Nevada.

c. On March 21, 2014, TelexFree issued a press release with the following quote from Merrill: “We have been in VOIP telecommunications for more than a decade.” The statement is false. As noted above, Common Cents was founded in 2002, and its business was marketing “10-10” long-distance plans for WorldxChange – not VoIP technology.

d. The public portion of the TelexFree website contains a picture of a Best Western hotel and a banner reading “Hotel Best Western Opportunity.” The TelexFree “back office” website includes an icon with the logo of Best Western Hotels that is entitled “Best Western, Telexfree Tijuca”. At least one version of the marketing presentation on the company’s website included descriptions of Best Western’s activities in the United State and South America. Crosby stated in his April 2013 video, “This company has a joint venture with Best Western.” The representation and other suggestions that TelexFree has a business relationship with Best Western is false. Ympactus Comercial Ltda. (“Ympactus”), a Brazilian corporation controlled by Wanzeler and Costa, has a promotional agreement with a Brazilian company that is partnering with Best Western on a new hotel. TelexFree has no relationship at all with Best Western.

e. The “Founder” section of the TelexFree website states, “Being well versed in one of the new technologies in the era (VoIP), in 2002 he [Merrill] decided to found TelexFree, Inc. to serve this market.” On August 1, 2013, Wanzeler told a gathering of TelexFree promoters, “We have a company since 1995. It’s a VoIP product company.” The statements are false, for several reasons. First, Common Cents – not TelexFree – was founded in 2002. Second, Wanzeler, Merrill and Labriola – not just Merrill – incorporated Common Cents. Third, the business of Common Cents was marketing “10-10” long-distance access plans for WorldxChange – not VoIP technology.



**Reassuring Statements about Regulatory Action by Brazil**

46. In June 2013, a court in the Brazilian state of Acre suspended the operations of Ympactus and froze its assets in Brazil, based on the suspicion of operating a pyramid scheme. In a video posted on June 20, 2013, Merrill, Wanzeler and Labriola sought to reassure promoters. Merrill stated, "Inquiries like this are very common in network marketing... We have such unbelievable growth that we're going to draw attention." Labriola stated, "These things happen to network marketing companies over and over again... Let's not worry about it." Wanzeler added, "We're still here. We're going to stay here for a long time."

47. In its bankruptcy filings on April 14, 2014, however, TelexFree claims that after the Brazilian enforcement action against Ympactus, it began planning to restructure its compensation program – planning which resulted in the changes announced on March 9, 2014.

48. Defendants did not disclose that several banks and at least one payment processor stopped doing business with TelexFree, apparently due to concerns about the legality of its multi-level marketing program. As a result, TelexFree has repeatedly been forced to open new accounts at different banks and to switch payment processors.

**Secrets of the Pyramid**

49. After the enforcement action in Brazil, certain persons affiliated with TelexFree made public statements to the effect that TelexFree is different from illegal multi-level marketing programs because it has an actual product to sell – the 99TelexFree VoIP service.

a. In a video posted on August 2, 2013, Gerald Nehra, who claims to be the TelexFree's attorney, stated, "The special ingredient is that you have a real product."

b. In a video posted on August 15, 2013, Costa stated that TelexFree “never was, never will be” an illegal pyramid because of the sales of the VoIP service. He asserted, “We do not depend on everyone coming in in order to pay the people who are already in.”

50. The reality is quite different. Based on the information available to date, it is clear that TelexFree’s VoIP revenue has been only a small fraction of the money it promised to pay to AdCentral promoters. Credit card transactions from August 2012 to March 2014 indicate that TelexFree received slightly more than \$1.3 million from the sale of approximately 26,300 VoIP contracts. During the same period, TelexFree received more than \$302 million from approximately 48,000 AdCentral promoters and 202,000 AdCentral Family promoters. Through the sale of those one-year contracts, TelexFree promised to pay more than \$1.1 billion to the promoters who placed the required internet ads – a task which, as explained above, was extremely easy to accomplish. In other words, the receipts from selling VoIP packages covered barely 1% of TelexFree’s obligations to pay promoters who placed ads. The disparity between TelexFree’s VoIP revenues and its AdCentral obligations was actually worse than that, because the \$1.1 billion of estimated obligations does not include the commissions and incentives that TelexFree promised to pay to promoters under the additional programs described above.

51. In short, TelexFree was operating a classic pyramid. Because revenues from VoIP sales were so small, TelexFree was forced to use money from newer investors to make its payments to older investors.

**Diversion of Funds**

52. The Commission has not yet been able to obtain a complete set of statements from the defendants' banks, brokerage firms, and credit card payment processing services. However, the information available to date, from bank records and other financial records as well as from statements made by various defendants, indicates that Merrill and Wanzeler, who had sole authority to transfer TelexFree corporate funds until the bankruptcy filing, have caused more than \$30 million to be transferred from TelexFree operating accounts to themselves and to affiliated companies in the past few months:

a. Bank statements show that TelexFree Financial, Inc. received \$4,105,000 on December 30 and December 31, 2013.

b. Financial statements prepared by Craft indicate that TelexFree made a \$2,022,329 "loan" to TelexElectric.

c. Financial statements prepared by Craft indicate that TelexFree made a \$500,870 "loan" to Telex Mobile.

d. Bank statements show that, in December 2013, approximately \$14.3 million was transferred to newly-created brokerage accounts in the name of TelexFree, LLC.

e. Bank statements show that Merrill received \$3,136,200 on December 26 and December 27, 2013.

f. Bank statements show that Wanzeler received \$4,317,800 on December 26 and December 27, 2013.

g. Bank statements show that two companies controlled by Craft received more than \$2,010,000 between November 19, 2013 and March 14, 2014.

h. Federal wire transfer records show that Wanzeler wired \$3.5 million to the Oversea-Chinese Banking Corporation in Singapore on January 2, 2014.

i. In addition, a bank has informed the Commission that TelexFree, LLC sent \$10,389,000 to an entity known as TelexFree Dominicana, SRL on April 3, 2013.

53. Also, on April 11 (just before TelexFree filed for bankruptcy), Merrill and the wife of Wanzeler obtained cashier's checks in the total amount of \$25,552,402. The checks are payable to TelexFree, LLC.

#### **Collapse of the Pyramid**

54. On March 9, 2014, TelexFree made changes to its compensation plan that made it much harder for promoters to qualify for payments. The most significant change was that promoters may not receive any payments – even if they had qualified for the payments before March 9 – until they have recruited ten VoIP customers, including five who remain active each month, as well as two direct recruits who each have five active VoIP customers per month. In other words, promoters must now actually sell the TelexFree's VoIP product in order to get paid.

55. The rule change generated a storm of protests from AdCentral members. On April 1, dozens of members descended on the company's office in Marlborough to complain – in part because, as one member told the press, the VoIP service is “almost impossible to sell”.

56. On April 14, 2014, defendants TelexFree, Inc. and TelexFree, LLC and relief defendant TelexFree Financial Inc. filed for bankruptcy in Nevada under Chapter 11. The three

companies claimed to have liabilities of as much as \$600 million but assets of no more than \$120 million. The companies stated that, in the five weeks after the March 9 rule change, promoters submitted claims for \$174 million, primarily for AdCentral ad placements. The companies also stated that revenues under the new March 9 compensation plan – which requires AdCentral promoters to sell VoIP products in order to get paid – have been so disappointing that the companies cannot meet their obligations. Confirming that VoIP sales have not generated enough revenue to honor their promises to AdCentral promoters, the companies seek authority to reject all existing AdCentral contracts.

57. The whereabouts and/or disposition of much of the more than \$300 million of investor funds raised by TelexFree is unknown.

**FIRST CLAIM FOR RELIEF**  
**(Violation of Section 10(b) of the Exchange Act and Rule 10b-5)**

58. The Commission repeats and incorporates by reference the allegations in paragraphs 1-56 of the Complaint as if set forth fully herein.

59. Defendants, directly or indirectly, acting intentionally, knowingly or recklessly, by the use of means or instrumentalities of interstate commerce or of the mails, in connection with the purchase or sale of securities: (a) have employed or are employing devices, schemes or artifices to defraud; (b) have made or are making untrue statements of material fact or have omitted or are omitting to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) have engaged or are engaging in acts, practices or courses of business which operate as a fraud or deceit upon certain persons.

60. As a result, defendants have violated and, unless enjoined, will continue to violate Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

**SECOND CLAIM FOR RELIEF**  
**(Violation of Section 17(a) of the Securities Act)**

61. The Commission repeats and incorporates by reference the allegations in paragraphs 1-56 of the Complaint as if set forth fully herein.

62. Defendants, directly and indirectly, acting intentionally, knowingly or recklessly, in the offer or sale of securities by the use of the means or instruments of transportation or communication in interstate commerce or by the use of the mails: (a) have employed or are employing devices, schemes or artifices to defraud; (b) have obtained or are obtaining money or property by means of untrue statements of material fact or omissions to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) have engaged or are engaging in transactions, practices or courses of business which operate as a fraud or deceit upon purchasers of the securities.

63. As a result, defendants have violated and, unless enjoined, will continue to violate Section 17(a) of the Securities Act [15 U.S.C. §77q(a)].

**THIRD CLAIM FOR RELIEF**  
**(Violation of Sections 5(a) and 5(c) of the Securities Act by**  
**Defendants TelexFree, Inc., TelexFree, LLC, Merrill and Wanzeler**)

64. The Commission repeats and incorporates by reference the allegations in paragraphs 1-56 of the Complaint as if set forth fully herein.

65. TelexFree, Inc. and TelexFree, LLC have never registered or attempted to register any offering of securities under the Securities Act or any class of securities under the Exchange Act, and no exemption from registration was available.

66. Defendants TelexFree, Inc., TelexFree, LLC, Merrill and Wanzeler, directly or indirectly: (a) have made or are making use of the means or instruments of transportation or communication in interstate commerce or of the mails to sell, through the use or medium of a prospectus or otherwise, securities as to which no registration statement has been in effect and for which no exemption from registration has been available; and/or (b) have made or are making use of the means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell, through the use or medium of a prospectus or otherwise, securities as to which no registration statement has been filed and for which no exemption from registration has been available.

67. Defendants TelexFree, Inc., TelexFree, LLC, Merrill and Wanzeler have violated and, unless enjoined, will continue to violate Sections 5(a) and (c) of the Securities Act [15 U.S.C. §§77e(a), (c)].

**PRAYER FOR RELIEF**

WHEREFORE, the Commission requests that this Court:

A. Enter a preliminary injunction, order freezing assets, and order for other equitable relief in the form submitted with the Commission's motion for such relief;

B. Enter a permanent injunction restraining defendants and each of his agents, servants, employees and attorneys and those persons in active concert or participation with them

who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of:

1. Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5] as to all defendants;
2. Section 17(a) of the Securities Act [15 U.S.C. §77q(a)] as to all defendants; and
3. Section 5 of the Securities Act [15 U.S.C. §77e] as to defendants TelexFree, Inc., TelexFree, LLC, Merrill and Wanzeler;

C. Require defendants to disgorge their ill-gotten gains and losses avoided, plus pre-judgment interest, with said monies to be distributed in accordance with a plan of distribution to be ordered by the Court;

D. Order defendants to pay an appropriate civil penalty pursuant to Section 20(d) of the Securities Act [15 U.S.C. §77t(d)] and Section 21(d)(3) of the Exchange Act [15 U.S.C. §78u(d)(3)];

E. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and



F. Award such other and further relief as the Court deems just and proper.

Respectfully submitted,



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Dated: April 15, 2014

**COMMONWEALTH OF MASSACHUSETTS  
OFFICE OF THE SECRETARY OF THE COMMONWEALTH  
SECURITIES DIVISION  
ONE ASHBURTON PLACE, ROOM 1701  
BOSTON, MASSACHUSETTS 02108**

SECRETARY'S OFFICE  
2014 MAR 15 PM 04:42

IN THE MATTER OF:	)	
	)	ADMINISTRATIVE COMPLAINT
TELEXFREE, INC. f/k/a COMMON CENTS COMMUNICATIONS, INC., & TELEXFREE, LLC	)	
RESPONDENTS.	)	Docket No. 2014-0004

**I. PRELIMINARY STATEMENT**

The Enforcement Section of the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth (hereinafter the "Enforcement Section" and the "Division," respectively) files this administrative complaint (hereinafter the "Complaint") in order to commence an adjudicatory proceeding against the above-named Respondents, TelexFREE, Inc. f/k/a Common Cents Communications, Inc., and TelexFREE, LLC (hereinafter collectively the "Respondents") for violations of MASS. GEN. LAWS ch. 110A, the Massachusetts Uniform Securities Act (hereinafter the "Act") and 950 MASS. CODE REGS. 10.00 *et seq.*, (hereinafter the "Regulations"). The Complaint alleges that Respondents engaged in the fraudulent offer or sale of unregistered securities in the Commonwealth of Massachusetts (hereinafter the "Commonwealth") in violation of the Act and Regulations.

The Enforcement Section seeks an Order: 1) requiring Respondents to permanently cease and desist from further conduct in violation of the Act and Regulations in the Commonwealth; 2) requiring Respondents to provide an accounting of all proceeds which

were received as a result of the alleged wrongdoing; 3) to offer restitution to and fairly compensate investors for those losses attributable to the alleged wrongdoing; 4) requiring Respondents to disgorge all profits and other direct or indirect remuneration received from the alleged wrongdoing; 5) censuring Respondents; 6) permanently barring the association or registration of the Respondents with any broker-dealer, issuer of securities, or investment adviser in the Commonwealth; 7) imposing an administrative fine on Respondents in such amount and upon such terms and conditions as the Director or Presiding Officer may determine; and 8) taking any such further actions which may be necessary or appropriate in the public interest for the protection of Massachusetts investors.

## II. SUMMARY

While touted as a paradigm shift in telecommunications and advertising, TelexFREE is merely a veiled pyramid and Ponzi scheme targeting the hard-working Brazilian-American community. TelexFREE's scheme borrows elements from the once common phone card frauds of the mid 2000s while supercharging its reach through an elaborate internet-marketing machine. Using various interrelated bank accounts and entities, TelexFREE has raised over \$90,000,000.00 in the Commonwealth and nearly \$1,000,000,000.00 worldwide—often from honest earnings and savings accounts of Brazilian-Americans and other minority groups.

Despite such an impressive capital raise, TelexFREE operations are untenable without a continuous influx of new capital. Indeed, the financial basis of the TelexFREE scheme centers on the recruitment of additional participants and placing online advertisements—not the sales of 99TelexFREE Voice over Internet Protocol computer programs (hereinafter “VoIP Program(s)”). Respondents fraudulently induce investment

in at least two business opportunities involving the offer or sale of unregistered securities in the Commonwealth—namely 1) TelexFREE’s passive income scheme and 2) an offer to invest in TelexFREE’s hotel program.

TelexFREE’s business purportedly centers on the sale of its VoIP Program, 99TelexFREE, despite the fact that TelexFREE’s president testified to having limited knowledge of Voice over Internet Protocol (hereinafter “VoIP”) and never having been in the telecom business. A VoIP computer program, such as 99TelexFREE, allows an individual to place phone calls over the internet. In effect, an individual can use VoIP as a substitute for traditional landline phone services. Using technology borrowed from Disk A Vontade, a nearly identical venture with common management, TelexFREE rebranded the VoIP Program, offering it for a flat monthly fee of \$49.90. Unlike Disk A Vontade operations, however, TelexFREE coupled the VoIP Program with a wildly lucrative and fraudulent scheme (hereinafter the “Passive Income Scheme”).

The core of the Passive Income Scheme centers on the investment of either \$289.00 or \$1,375.00. A participant who invests \$289.00 receives one advertisement kit and ten VoIP Programs. A participant who invests \$1375.00 receives five advertisement kits and fifty VoIP Programs. The TelexFREE advertisement kit enables participants to generate a return by posting pre-written advertisements, to pre-determined websites, through an automated TelexFREE system. A participant’s daily use of the advertisement kits generates investment returns without the need for any VoIP Program sales. As testified to, posting advertisements is an effortless process that takes only a few minutes per advertisement. Indeed, many participants pay third parties to post advertisements—completely outsourcing any required work at a minimal cost.

By merely posting one advertisement each day of the week, the TelexFREE participant receives an additional VoIP Program. The participant can sell the additional VoIP Program to TelexFREE for \$20.00. Thus, over the course of the year, a participant who initially invests \$289.00 and does nothing more than place one advertisement per day can receive profit of at least \$681.00—a return in excess of 200%. Alternatively, a participant who initially invests \$1,375.00 and does nothing more than place five advertisements per day can receive profit of at least \$3,675.00—a return in excess of 250%. This feature alone has attracted thousands of individuals to invest in TelexFREE.

The Passive Income Scheme generates further returns for participants through various bonus structures and recruitment commissions. TelexFREE tailors each of the additional income streams to incentivize recruitment. By merely recruiting one individual into the TelexFREE scheme, a participant can receive as much as \$100.00. By recruiting multiple individuals, TelexFREE participants become eligible for revenue sharing bonuses of up to 3% of the TelexFREE's VoIP Program sales.

Hidden among TelexFREE's bonus structure and recruitment commissions is the fact that TelexFREE participants may self-qualify. Indeed, as testified by participants, a participant may invest in more than one advertisement kit and personally purchase the VoIP Program to earn bonuses. Thus, a participant may purchase a VoIP Program, never use the program, and still qualify for additional income. Without ever selling any VoIP Program, the participant receives a return far in excess of the 200-250% guaranteed return.

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

TelexFREE website and TelexFREE presentations included pictures of cash and luxury property. In one such presentation, TelexFREE touted the Passive Income Scheme as “the opportunity of a lifetime.” Through such fantasies, reserved only for those at the top of the Passive Income Scheme, TelexFREE induced investments drawn from participants’ earnest earnings and savings. Troublingly, TelexFREE allowed certain participants to join the scheme despite prior run-ins with the law. TelexFREE prominently highlighted one such participant, Sann Rodrigues (hereinafter “Rodrigues”), as the top promoter in the world on the TelexFREE website. Rodrigues, a self-proclaimed millionaire, had previously operated a similar multi-level marketing phone card fraud shuttered by the SEC in 2006.

TelexFREE’s revenue, from VoIP Programs sales alone, is inadequate to satisfy participant returns. In 2012 and 2013, TelexFREE identified 4,845,576 VoIP Program transactions totaling \$238,395,353.80. Net revenue received by TelexFREE from VoIP Program sales was significantly less due to substantial commission payments. Importantly, TelexFREE founder Carlos Wanzeler (hereinafter “Wanzeler”) could not identify the number of individuals purchasing only a VoIP Program without also becoming a participant. Wanzeler provided wildly varied estimates when challenged to identify the number of VoIP Programs sold to non-participants.

Over the same period, TelexFREE had 783,771 investments of either \$289.00 or \$1,375.00 totaling \$880,189,455.32. Assuming that each participant invested only \$289.00 and did no more than post one advertisement per day, TelexFREE owed participants a total of \$799,446,420.00. Alternatively, if each participant invested only \$1,375.00 and did no more than post five advertisements per day, TelexFREE owed

\$3,997,232,100.00 to its participants. According to data provided by TelexFREE, \$1,375.00 investments accounted for 88% of transactions through Massachusetts based participants.

Even assuming that only 50% of all participant investments were for \$1,375.00, TelexFREE would still owe \$2,398,897,200.00—a number that far exceeds TelexFREE's reported total revenues over the same period. This figure, of almost \$2.4 billion, does not even include further bonuses, recruitment commissions, and revenue sharing. The inclusion of these additional payments would create an even greater disparity between the VoIP Program revenue and guaranteed money paid out of the Passive Income Scheme to participants.

In addition to the Passive Income Scheme, TelexFREE, through a Brazilian affiliate, offered an investment in a Best Western Hotel. As described by TelexFREE's president, the Best Western Hotel opportunity was an important marketing tool to bolster TelexFREE credibility worldwide. TelexFREE management facilitated the offer of the Best Western Hotel opportunity through the inclusion of the Best Western Hotel opportunity on the front page of the TelexFREE website accessible in the Commonwealth. Through a prominently placed website banner and video, TelexFREE presented an investment opportunity with a guaranteed yearly return of over 8%. The Best Western Hotel opportunity video remained on the United States based TelexFREE website for months despite the fact that the president of TelexFREE was aware of the video and requested TelexFREE's website staff remove the video.

In fact, the difference between U.S. TelexFREE operations and Brazilian operations is a distinction without a difference. As described by TelexFREE

management, the ownership interests in TelexFREE, Inc. (Massachusetts based), TelexFREE LLC (Nevada based) and Ympactus (Brazilian based), overlap. Both James Merrill (hereinafter "Merrill") and Wanzeler, self-proclaimed founders of TelexFREE hold 50% ownership interest in the United States entities and 20% and 40% interests respectively in the Brazilian entity. Carlos Costa (hereinafter "Costa"), head of Brazilian operations and longtime friend of Wanzeler, was an owner of TelexFREE, LLC. In late 2013, Costa withdrew his ownership for what Merrill characterized as "legal reasons." Furthermore, TelexFREE entities use the same website and back office support, merely providing identical information in multiple languages. Perhaps most telling, both Merrill and Wanzeler testified to transferring at least \$3,000,000.00 to Costa long after Brazilian authorities shut down Ympactus operations.

Over two years of operations, TelexFREE has employed multiple financial accounts, including domestic and international bank accounts and various online payment processors, to facilitate the fraudulent offer or sale of securities in the Commonwealth. Almost all financial institutions have terminated their relationship with TelexFREE after only a few months of business. Recently, frantic emails between TelexFREE management and financial institutions paint an entirely bleak picture of continuing TelexFREE financial operations. TelexFREE operations have become a risk that financial institutions are no longer willing to bear. As described by one financial institution, "[n]o US Bank or Processor . . . will accept your [TelexFREE] business given that you are on month five of the Visa Chargeback monitoring program. You are one of only three merchants in the USA on month five so you are a real hot-potato as they say."



Recently on March 9, 2014, TelexFREE management made several changes to its once wildly popular Passive Income Scheme. A central component of the new changes affects the ease of participant withdrawals. Currently, TelexFREE participants are no longer able to withdraw money, even money already “earned,” without making a specified number of retail sales and recruiting a number of new investors. Certain TelexFREE participants have frantically contacted the Division suspecting that these changes are the harbinger of TelexFREE’s collapse. Not only is it now more difficult to withdraw money from TelexFREE, TelexFREE has also switched its compensation plan from one that pays participants in dollars to one that operates on TelexFREE “credits.” These credits appear to be nothing more than IOUs. To this end, on April 14, 2014 TelexFREE filed for Chapter 11 bankruptcy protection in Nevada.

Based on its investigation, the Enforcement Section believes that since 2012 TelexFREE has offered or sold securities in the Commonwealth. Through the offer or sale of unregistered securities, TelexFREE has caused and continues to cause great harm to unsophisticated minority populations enticed by the false pretense of getting rich quick.

### **III. JURISDICTION AND AUTHORITY**

1. As provided for by the Act, the Division, under the Office of the Secretary of the Commonwealth, maintains jurisdiction over matters relating to securities. The Act authorizes the Division to regulate: 1) the offer, sale, and purchases of securities; 2) those persons engaged in the business of effecting transactions in securities for the account of others or for their own account; and 3) those persons transacting business as investment advisers within the Commonwealth.

2. The Division brings this action pursuant to the enforcement authority conferred upon it by Section 407A of the Act and MASS. GEN. LAWS ch. 30A, wherein the Division has the authority to conduct an adjudicatory proceeding to enforce the provisions of the Act and all Regulations and rules promulgated thereunder.
3. This proceeding is brought in accordance with Sections 101, 201, 301, 404 and 407A of the Act and its Regulations. Specifically, the acts and practices constituting violations occurred within the Commonwealth.
4. The Division specifically reserves the right to amend this Complaint and/or bring additional administrative complaints to reflect information developed during the current and ongoing investigation.

#### **IV. RELEVANT TIME PERIOD**

5. Except as otherwise expressly stated, the conduct described herein occurred during the approximate time period of December 31, 2002 through the present (hereinafter the "Relevant Time Period").

#### **V. RESPONDENTS**

6. TelexFREE, Inc., f/k/a Common Cents Communications, Inc. (hereinafter "TelexFREE, Inc."), is a domestic for-profit corporation organized under the laws of the Commonwealth of Massachusetts on December 31, 2002. TelexFREE, Inc. has a last known principal place of business at 225 Cedar Hill St., Suite 118, Marlboro, Massachusetts, 01752. TelexFREE, Inc. operates a publically available website located at [www.telexfree.com](http://www.telexfree.com) (hereinafter the "TelexFREE Website").
7. TelexFREE, LLC (hereinafter "TelexFREE, LLC"), is a foreign limited liability company organized under the laws of the State of Nevada on August 19, 2012 and

was registered with the Secretary of the Commonwealth as of April 19, 2013. TelexFREE, LLC has a last known principal place of business at 4705 S. Durango Drive, #100-J51, Las Vegas, Nevada, 89147 (hereinafter "Las Vegas Address"). TelexFREE, LLC's Las Vegas address consists only of a United States mail address. TelexFREE, LLC maintains a Massachusetts office at 225 Cedar Hill Street, Suite 200, Marlboro, Massachusetts, 01752.

## VI. RELATED PARTIES

8. Carlos Nataniel Wanzeler (hereinafter "Wanzeler"), is an individual with a last known principal place of residence in Northborough, Massachusetts. According to corporate filings with the Secretary of the Commonwealth, Wanzeler currently serves as Treasurer and Director of TelexFREE, Inc. Corporate filings list Wanzeler as Chief Executive Officer of TelexFREE, Inc. and Manager of TelexFREE, LLC.
9. James Matthew Merrill (hereinafter "Merrill"), is an individual with a last known principal place of residence in Ashland, Massachusetts. According to corporate filings with the Secretary of the Commonwealth, Merrill currently serves as President, Secretary, Director, and Registered Agent of TelexFREE, Inc. Corporate filings list Merrill as Chief Financial Officer of TelexFREE, Inc. and Manager and registered agent for TelexFREE, LLC.
10. Steven M. Labriole, a/k/a Steve Labriola (hereinafter "Labriola") resides in Upton, Massachusetts. As late as December 31, 2010, corporate filings with the Secretary of the Commonwealth list Labriole as a Director of TelexFREE, Inc. Labriole serves as the International Marketing Director for TelexFREE, Inc.

11. Carlos Roberto Costa (hereinafter “Costa”) is an individual associated with TelexFREE, Inc. and TelexFREE, LLC and currently residing in Brazil. According to corporate filings with the Secretary of the Commonwealth, Costa served as Manager of TelexFREE, LLC. Upon information and belief, Costa currently, or formerly, also serves as Director of Marketing for TelexFREE in Brazil.
12. Fabio N. Wanzeler (hereinafter “Fabio Wanzeler”) is an individual with a last known principal place of residence in Coral Springs, Florida. As late as December 31, 2010, corporate filings with the Secretary of the Commonwealth list Fabio Wanzeler as a Director of TelexFREE, LLC.
13. Ympactus Comercial LTDA-ME (hereinafter “Ympactus”) is a Brazilian entity, formerly operating TelexFREE, Inc. and TelexFREE, LLC in Brazil. Ympactus, TelexFREE, Inc. and TelexFREE, LLC maintain interrelated financial and management control. According to a Brazilian journalist, the Public Ministry of the State of Arce in Brazil froze Ympactus operations for allegedly operating an illegal pyramid scheme.
14. Lyvia Mara Campista Wanzeler (hereinafter “Lyvia”) is an individual believed to have signatory authority for Ympactus.
15. Disk A Vontade Telefonía Ltda, a/k/a Diskavontade, a/k/a Disk (hereinafter “Disk A Vontade”) is a Brazilian entity with a last known principal place of business at Rua Jose Luiz Gabeira, NRO 170, APTO 103 Barro Vermelho. Disk A Vontade has a last known Massachusetts office located at 225 Cedar Hill Street, Suite 200, Marlboro, Massachusetts, 01752. Wanzeler is Chief Executive Officer of Disk A Vontade. According to documents produced to the Enforcement Section, Merrill is a Vice

President of Disk A Vontade with signatory authority. According to testimony, Disk A Vontade is a d/b/a for Brazilian Help, Inc.

16. Brazilian Help, Inc. (hereinafter “Brazilian Help”) is a domestic for-profit corporation organized under the laws of the Commonwealth of Massachusetts on October 10, 2007. Brazilian Help has a last known principal place of business at 225 Cedar Hill St., Suite 118, Marlboro, Massachusetts, 01752. Corporate documents list Wanzeler as the President, Treasurer, Secretary, and registered agent of Brazilian Help.
17. Sanderley R. De Vasconcelos, a/k/a Sann Rodrigues, a/k/a Sanderley Vasconcelos (hereinafter “Rodrigues”) is an individual believed to reside in Orlando, Florida. Upon information and belief, Rodrigues has significant and substantial ties to the Massachusetts Brazilian community. In 2006, Rodrigues was held liable for operating a fraudulent pyramid scheme targeting the Brazilian community. As part of the court proceedings, Rodrigues was permanently barred from the offer and sale of securities. The TelexFREE Website publically listed Rodrigues as “the top promoter in the world.”
18. Telexfree Financial, Inc., is a TelexFREE, Inc. and TelexFREE, LLC related entity believed to be operating various bank accounts. Wanzeler incorporated Telexfree Financial, Inc. in Florida with the Florida Department of State, Division of Corporations.

## **VII. ALLEGATIONS OF FACT**

### ***A. The TelexFREE Investigation***

19. The Enforcement Section commenced its investigation after receiving communication from a Brazilian journalist. Through an initial conversation, the Brazilian journalist

proceeded to describe an alleged multi-million dollar fraud occurring in Brazil involving Respondents.

20. TelexFREE, Inc. and TelexFREE, LLC (hereinafter collectively “TelexFREE”) hold themselves out as multi-level marketing companies selling telecommunication services to retail consumers.

21. TelexFREE’s United States headquarters has always been, and continues to be, located in Massachusetts.

*a. The TelexFREE Website as accessible in the Commonwealth*

22. The Enforcement Section immediately began monitoring the TelexFREE Website, registered to a post office box located in Worcester, Massachusetts.

23. As described on the TelexFREE Website, TelexFREE offers a Voice over Internet Protocol software program<sup>1</sup>, 99TelexFREE, (hereinafter “VoIP Program”) for a “simple monthly payment of only \$49.90.”

24. Voice over Internet Protocol (hereinafter “VoIP”) allows a user to place telephone calls through the internet. An individual who purchases a VoIP Program through the TelexFREE Website receives software that enables phone calls to certain landlines and cell phones.

25. TelexFREE also offers a “TelexFREE Promoter” program. The TelexFREE Website describes the “TelexFREE Promoter” program as, “[a]n amazing opportunity for promoters to profit from the sale and distribution of products and services Telexfree.” The TelexFREE Website provides bullet points, which describe benefits of becoming a “Promoter”. Among these benefits: “[a]ccess to Telexfree software...[r]esale rights...[d]irect commissions on the sale of plans for clients and

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<sup>1</sup>Common VoIP programs include, Skype, Comcast VoIP, and Vonage.

promoters...[i]ndirect commissions for network consumption...[and] [v]irtual online office to manage your indications and gains.”

26. As of February 26, 2014, the TelexFREE Website highlighted key members of the TelexFREE management team, including Merrill, Wanzeler, and Labriola. Currently, the TelexFREE Website highlights Merrill’s contributions to the company, Merrill’s traditional American upbringing, and Merrill’s ties to the Brazilian community.
27. As of February 26, 2014, the TelexFREE Website additionally displayed a banner inviting all TelexFREE “affiliates” to a “mega event” held on March 1, 2014 through March 2, 2014 in Spain. Throughout the Relevant Time Period, TelexFREE’s Website has linked to other “affiliate” events including luxury cruise vacations.
28. Currently, the TelexFREE Website contains, without any disclosure to the contrary, links and icons suggestive of affiliations with Windows, Google, and Apple.
29. As late as May 21, 2013, the TelexFREE Website browser bar included the tag line “make money by posting ads.”
30. As late as March 31, 2014, the TelexFREE Website contained a page devoted to its founder, Merrill, which included a biography.
31. As recently as March 28, 2014, Merrill’s biography on TelexFREE’s Website stated, “[...] James Merrill graduated in economics in the class of 1985 at Westfield State University.”
32. According to testimony provided to the Division, Merrill only attended Westfield State University for two years, leaving in 1981 without receiving a degree or declaring a major.

33. As President of TelexFREE Merrill had notified both Costa and Wanzeler of the misrepresentation, however, Costa and Wanzeler ignored his requests to have the information changed.
34. As recently as March 28, 2014, TelexFREE's Website stated that Merrill is "well versed in one of the new technologies of the era (VoIP) [*sic*]. . . ." However, according to testimony provided to the Division, Merrill testified to having only a basic understanding of VoIP technology, that VoIP technology allowed calls to be made over the internet rather than through traditional land based phone lines.

***b. TelexFREE headquarters in the Commonwealth***

35. Wanzeler incorporated TelexFREE, Inc. as a Massachusetts for-profit corporation on December 31, 2002 under the name Common Cents Communications, Inc. Wanzeler amended the name to TelexFREE, Inc. on February 15, 2012. Corporate documents describe TelexFREE, Inc.'s business as "SALES OF LONG DISTANCE TELECOMMUNICATION SERVICES".
36. Starting in 2007, corporate documents list 225 Cedar Hill St., Suite 200, Marlboro, Massachusetts, 01752 as the principal office of TelexFREE, Inc. and later as the Massachusetts office location for Telexfree, LLC.
37. On Monday, February 3, 2014 at approximately 10:00 a.m., members of the Enforcement Section traveled to 225 Cedar Hill Street, Marlboro, Massachusetts, 01752 (hereinafter "TelexFREE Headquarters").
38. TelexFREE Headquarters (as identified on the TelexFREE Website) consists of a multi-tenant office building. Staff members visited Suite 200—a conference space



rented by multiple tenants. An office directory at TelexFREE Headquarters listed 24 tenants of Suite 200, including Disk A Vontade.

39. Disk A Vontade is a telecommunications company providing VoIP services as a d/b/a for Brazilian Help. According to documents produced to the Enforcement Section, Merrill is a vice president of Disk A Vontade with signatory authority. Wanzeler is the chief executive officer of Disk A Vontade. Furthermore, Disk A Vontade is the registered owner of the TelexFREE Website.
40. TelexFREE is a repackaging of Disk A Vontade operations, structure, and management—including telecommunication carrier agreements. Disk A Vontade provides identical telecommunications services to retail customers.

***B. TelexFREE has Offered or Sold Securities in the Commonwealth and Continues to Offer or Sell Securities in the Commonwealth***

41. Through an elaborate internet scheme, Respondents fraudulently induced investment in at least two business opportunities involving the offer or sale of securities—namely 1) TelexFREE’s passive income scheme and 2) an offer to invest in TelexFREE’s hotel program.
42. TelexFREE’s passive scheme (hereinafter the “Passive Income Scheme”) constitutes an investment contract. TelexFREE participants invest money in a common enterprise with the expectation of profits to be derived from the essential managerial efforts of TelexFREE. The fortunes of TelexFREE participants are interwoven with and dependent upon the efforts and successes of TelexFREE management, namely Wanzeler and Merrill.
43. Respondents have never filed an application for the registration of, or exemption for, securities to be offered in the Commonwealth during the Relevant Time Period.

44. Respondents have never registered in Massachusetts as broker-dealer, an agent of a broker-dealer or an issuer, an investment adviser or an investment adviser representative, or in any other capacity during the Relevant Time Period.
45. The Division has never registered Wanzeler as a broker-dealer, an agent of a broker-dealer or an issuer, an investment adviser or an investment adviser representative, or in any other capacity in the securities business in the Commonwealth during the Relevant Time Period.
46. The Division has never registered Merrill as a broker-dealer, an agent of a broker-dealer or an issuer, an investment adviser or an investment adviser representative, or in any other capacity in the securities business in the Commonwealth during the Relevant Time Period.

***C. TelexFREE's Passive Income Scheme***

47. TelexFREE offers and has induced investment in a multi-level, multi-dimensional pyramid and Ponzi scheme in the Commonwealth.
48. Interests in TelexFREE's Passive Income Scheme are sold in the form of sales packages called AdCentral packages (hereinafter "AdCentral Package(s)") and AdCentral Family packages (hereinafter "AdCentral Family Package(s)").
49. TelexFREE's AdCentral Packages and AdCentral Family Packages are investment contracts and the VoIP Programs sold by TelexFREE are merely incidental to TelexFREE operations.
50. In order to join the TelexFREE Passive Income Scheme, a TelexFREE participant must either purchase an AdCentral Package for \$289.00 or purchase an AdCentral Family Package for \$1375.00.

51. TelexFREE pools money received from the sale of both AdCentral Packages and AdCentral Family Packages into common bank accounts maintained and controlled in the name of TelexFREE. These accounts are used by Respondents to conduct business.
52. A purchaser of an AdCentral Package or an AdCentral Family Package expects to earn a minimum guaranteed profit of at least 200% or 250%, respectively, during a 12 month period.
53. In order to earn the minimum return for either the AdCentral Package or an AdCentral Family Package, TelexFREE's only requirement is for participants to post at minimum one advertisement per day—a task that merely requires an internet connection, several minutes of one's time, and no thought or effort by participants.
54. As such, the expected minimum returns can only come from TelexFREE's ability to generate revenues from TelexFREE's VoIP Program, which no participant is required to sell.

*a. The basic TelexFREE investment*

55. According to the TelexFREE Website, at the most basic level, participants can invest \$289.00 in return for the activation of an AdCentral kit (hereinafter "AdCentral Kit") and ten VoIP Programs.
56. According to the TelexFREE Website, the AdCentral Kit is an advertisement system that enables participants to earn one additional VoIP Program per week simply by posting one pre-written advertisement daily. The TelexFREE Website describes the advertising process by stating, "[a]ll in a fast and standardized manner atin [*sic*] your easy Telexfree virtual office (BO)." The "virtual office" and "BO" (hereinafter

- collectively the “TelexFREE Back Office”) is an internal website that each participant uses to manage their AdCentral Packages or AdCentral Family Packages.
57. According to testimony, as payment for posting one pre-written advertisement daily, a TelexFREE participant receives one additional VoIP Program per week from TelexFREE. The TelexFREE participant may sell the VoIP Program to TelexFREE for \$20.00 or receive a 10% commission (\$4.99) on any personal sales of the VoIP Program.
58. Upon information and belief, the vast majority of TelexFREE participants choose to receive the guaranteed \$20.00 weekly income by selling the additional VoIP Program to TelexFREE rather than sell a weekly VoIP Program for a commission of \$4.99.
59. Upon information and belief, the resale of VoIP Programs by a participant to TelexFREE is a simple process requiring only a few keystrokes by the participant in their TelexFREE Back Office.
60. As described in a “Business Presentation,” accessible on the TelexFREE Website as early as January 30, 2013, the posting of advertisements requires little or no participant effort (hereinafter “TelexFREE Website Presentation”). The TelexFREE Website Presentation states, “[w]e have it all computerized, with only 3 steps, in your virtual office (BackOffice).”
61. According to testimony from two TelexFREE participants, participants can purchase an advertisement application to automatically post advertisements. Even in the absence of automated computer and phone applications, the posting of daily advertisements consists merely of copying and pasting pre-drafted advertisements to

pre-determined websites. Still further, the TelexFREE scheme caps participants' efforts by crediting only one advertisement per day per AdCentral Package.

62. Upon information and belief, TelexFREE does not effectively limit the number of AdCentral Packages purchased by a participant. According to data provided by TelexFREE, many promoters own multiple AdCentral Packages.

63. Thus, a participant who invests in an AdCentral Package and chooses to do no more than post one pre-written daily advertisement, receives one weekly VoIP Program. A participant who sells each additional VoIP Program to TelexFREE will receive a net yearly return of at least \$681.00—a return in excess of 200%.

64. According to information provided by Respondents to the Enforcement Section, TelexFREE participants have purchased over 7,800 AdCentral Packages, with proceeds totaling over \$2,000,000.00 through Massachusetts based "promoters."

***b. The TelexFREE accelerated investment***

65. According to TelexFREE's Website Presentation, TelexFREE participants may also choose to invest more money to secure higher returns.

66. TelexFREE participants may invest \$1,375.00 in return for the activation of one AdCentral Family Package.

67. Unlike the AdCentral Package, the AdCentral Family Package consists of fifty VoIP Programs and five AdCentral Kits, which enables investors to earn five additional VoIP Programs per week simply by posting five pre-written advertisements daily.

68. According to testimony, as payment for posting five pre-written advertisements daily, a TelexFREE participant receives five additional VoIP Programs per week from TelexFREE. The TelexFREE participant may sell the VoIP Programs to TelexFREE

for \$100.00 or receive a 10% commission (\$4.99) on any personal sales of the VoIP Program.

69. Upon information and belief, the vast majority of TelexFREE participants choose to receive the guaranteed \$100.00 weekly income by selling the additional VoIP Programs to TelexFREE rather than sell each weekly VoIP Program for a \$4.99 commission.
70. As described in the TelexFREE Website Presentation, the posting of advertisements requires little or no participant effort. The TelexFREE Website Presentation states, “[w]e have it all computerized, with only 3 steps, in your virtual office (BackOffice).”
71. According to testimony from two TelexFREE participants, participants can purchase an advertisement application to automatically post advertisements. Even in the absence of automated computer and phone applications, the posting of daily advertisements consists merely of copying and pasting pre-drafted advertisements to pre-determined websites. Still further, the TelexFREE scheme caps participants’ efforts by crediting only five advertisements per day.
72. Upon information and belief, TelexFREE does not effectively limit the number of AdCentral Family Packages purchased by a participant. According to data provided by TelexFREE, many promoters own multiple AdCentral Family Packages, including Rodrigues who owns hundreds.
73. Thus, a participant who buys an AdCentral Family Package and chooses to do no more than post five pre-written daily advertisements, receives five weekly VoIP Programs. A participant who sells each additional VoIP Program to TelexFREE will receive a net yearly return of at least \$3,675.00—a return in excess of 250%.

74. According to information provided by Respondents to the Enforcement Section, TelexFREE participants have purchased over 58,000 AdCentral Family Packages, with proceeds totaling over \$80,000,000.00 through Massachusetts based “promoters.”

*c. Basic recruitment income*

75. Once initiated into the Passive Income Scheme (through an AdCentral Package or AdCentral Family Package), TelexFREE offers participants multiple recruitment payout structures, which generate pooled income for a TelexFREE participant with little or no effort required.

76. Respondents publically promote recruitment, by highlighting the success of individual participants, including Rodrigues; the former president of a Massachusetts based Ponzi scheme ordered to pay restitution of over \$1,800,000.00.

77. As President of Universo Foneclub Corp., Rodrigues offered a similar phone card investment targeting the Brazilian-American community.

78. As late as February 25, 2014, TelexFREE’s Website promoted Rodrigues as the “Top Promoter in the World.”

79. Despite knowing of Rodrigues’ past problems with authorities, nowhere on TelexFREE’s Website did TelexFREE disclose that Rodrigues had been sued by the SEC for offering and selling fraudulent phone card securities.

80. According to testimony from multiple participants, Rodrigues has recruited individuals within the Boston area into TelexFREE.

81. According to testimony from a participant, Rodrigues pitched TelexFREE as an “opportunity.”

82. To emphasize recruitment further, TelexFREE holds lavish meetings, referred to on at least one occasion as an “Extravaganza”. In connection with one particular “Extravaganza”, TelexFREE, LLC spent over \$100,000.00 at a Mercedes Benz dealership in Orlando, Florida. As drafted, the check indicated, “Cars for Extravaganza ID #s 46928139 1247078387.”
83. TelexFREE extravaganzas include rock music and audience participation akin to a pep rally. At certain extravaganzas, Merrill fueled participant excitement by leading the wave.
84. TelexFREE materials additionally suggest the potential for TelexFREE to change a participant’s life. The TelexFREE Website Presentation, attributed to Merrill, displayed the caption, “Beginning of FUTURE!!! Do not waste time Sign up now!” accompanied by pictures of money, a happy family, and a mansion.
85. The Passive Income Scheme rewards TelexFREE participants for recruitment with \$20.00 for each AdCentral Package and \$100.00 for each AdCentral Family Package purchased by downstream participants.
86. The Passive Income Scheme further rewards recruitment by paying an additional \$20.00 or \$80.00 each time a TelexFREE participant completes a pairing of downstream participants on the right and left side of the TelexFREE participant’s pyramid.
87. A participant can invest in more than one AdCentral Package or AdCentral Family Package, simply by creating a new username, thereby instantly expanding their pyramid with little effort.



88. By recruiting two AdCentral Family Package participants (or merely purchasing two additionally AdCentral Family Packages), and having a VoIP program, an individual TelexFREE participant will receive additional commissions of at least \$230.00.
89. By recruiting two downstream participants to TelexFREE and selling one VoIP Program, the Passive Income Scheme yields an additional 2% of all VoIP Program sales by downstream participants for up to six levels of recruitment.
90. As testified to, a participant need not sell the VoIP Program to a non-TelexFREE participant, but rather, may personally purchase the VoIP Program to qualify for further income. Thus, even when recruited participants fail to sell VoIP Programs to non-TelexFREE participants, the TelexFREE participant still receives a return.
91. As testified to, TelexFREE management could not identify the number of individuals purchasing only a VoIP Program without also becoming a participant.

*d. Bonus Pools further incentivize recruitment*

92. TelexFREE also offers at least two bonus programs in the Commonwealth—the Team Builder Bonus and the Team Cycle Bonus.
93. According to documents produced by TelexFREE, a TelexFREE participant is eligible for the Team Builder Bonus when the TelexFREE participant 1) invests in an AdCentral Family Package, 2) personally enrolls five retail customers, and 3) recruits 10 other TelexFREE participants who have also personally enrolled five retail customers.
94. According to documents produced by TelexFREE, a TelexFREE participant who is eligible for the Team Builder Bonus will receive 2% percent of TelexFREE's net billing for the following month divided among all qualifying TelexFREE participants.

95. According to documents produced by TelexFREE, at least 45 Massachusetts participants have qualified for the Team Builder Bonus and are receiving a portion of TelexFREE's revenue.
96. In one month alone TelexFREE paid over \$15,000.00 to Massachusetts participants who qualified for the Team Builder Bonus.
97. According to documents produced by TelexFREE, a TelexFREE participant is eligible for the Team Cycle Bonus when the TelexFREE participant qualifies for 22 cycle bonuses within 20 days.
98. According to documents produced by TelexFREE, a TelexFREE participant qualifies for the cycle bonus by 1) recruiting two additional participants and 2) enrolling one customer.
99. A TelexFREE participant who qualifies for the Team Cycle Bonus shares in one percent of TelexFREE's revenue, which, according to TelexFREE financials is nearly indistinguishable from gross profit.

***D. The Passive Income Scheme is a Combined Ponzi and Pyramid Scheme Consisting of Fraudulent and Unregistered Securities***

***a. Overview***

100. Over the last two years, primarily through recruitment efforts, Respondents have pooled nearly \$1,000,000,000.00 from investors worldwide and approximately \$93,000,000.00 from over 18,000 transactions through participants based in the Commonwealth.
101. TelexFREE's scheme operates through multiple entities with overlapping management and fluid movement of money between and among entities through various domestic and international financial institutions.

102. TelexFREE management maintains common ownership of the TelexFREE entities. Merrill and Wanzeler each own 50% of TelexFREE, Inc. and TelexFREE, LLC. Wanzeler, Costa, and Merrill own Ympactus jointly. Wanzeler and Costa each hold a 40% stake in Ympactus and Merrill owns 20%.
103. Additionally, the contract that governs a participant's relationship with TelexFREE makes several references to Ympactus (TelexFREE's Brazilian affiliate), including operating and payment agreements between TelexFREE and Ympactus.
104. Until recently, Costa was a member of TelexFREE, LLC. Costa has signatory authority for Ympactus.
105. In 2013, TelexFREE paid Costa at least \$3,000,000.00—months after Brazilian authorities froze Ympactus' assets and operations.

***b. TelexFREE payouts are unsustainable through VoIP sales***

106. While TelexFREE emphasizes the sale of VoIP Programs, participants have no requirement to sell the VoIP Programs. The only requirement to earn money from TelexFREE is to post daily pre-written advertisements. TelexFREE's guaranteed payment is not based on a participant's VoIP Program sales, but instead from the minimal effort required to post daily prewritten advertisements to predetermined websites.
107. Participants spend no more than five minutes per day to post the pre-written advertisements. There is no requirement that participants even post the advertisements themselves, and can instead pay others.

108. In response to the Division's subpoena dated February 5, 2014, TelexFREE identified 4,845,576 retail transactions during the 2012 and 2013 period, totaling \$238,395,353.80.
109. Upon information and belief, the net income to TelexFREE through retail sales was substantially less.
110. TelexFREE pays an initial 90% commission for the first month a VoIP Program is sold to a new client, a 10% commission for each month a client continues to buy the VoIP Program, and a 2% override commission for all up-line participants for up to six levels.
111. While TelexFREE asserts it keeps no data recording VoIP Program sales by participants, when factoring in commissions, at a minimum TelexFREE paid participants at least \$23,839,535.38 from 2012 through 2013. The actual commission payment to participants is likely in excess of this figure when considering the 2% residual commission.
112. Respondents have failed to disclose that VoIP Program sales are not sufficient to pay "guaranteed" returns. The success of the TelexFREE scheme requires an ever-increasing number of participants to continue to pay the returns promised to current participants.
113. Upon information and belief, TelexFREE made, and caused others to make, material misrepresentations concerning the source of the monies paid to its earlier members. TelexFREE did not generate sufficient revenue from VoIP Programs necessary to pay participants the represented returns. Instead, Wanzeler and Merrill operated TelexFREE as a massive pyramid and Ponzi scheme in which TelexFREE

took money that it received from subsequent participants to repay the earlier participants their principal and profit, while encouraging its participants, using material misrepresentations, to promote TelexFREE as an easy and legal means to earn a substantial income.

114. Despite over \$1.2 billion in revenue from 2012 through 2013, Respondents' operations reveal a simple entity, with little or no staff to manage day-to-day operations. In fact, according to TelexFREE financial statements, total payroll expenses, including all salaries, amounted to only \$120,683.88 in 2013.
115. Included among TelexFREE's salary expenses is a mere seven-person customer service department responsible for hundreds of thousands of purported VoIP Program customers.
116. TelexFREE, not the participants, handle all payments, manage the bank accounts, payment service providers, technical issues, create all advertisements, join participant videos and calls, hold participant meetings, and track, determine, and distribute all payments.
117. TelexFREE and its affiliate Ympactus created, update, and operate the TelexFREE Website.
118. TelexFREE pools participant funds in banks and other financial institutions. Participant funds flow between and among various entities sharing common ownership.
119. TelexFREE, not the participants, employ capital to create new programs, including, but not limited to, TelexMobile, Telexfree Financial Inc., and TelexElectric, LLLP.

*c. TelexFREE financial data*

120. TelexFREE's financial data reaffirms TelexFREE's operations as merely a pyramid and Ponzi scheme.
121. On April 23, 2013, TelexFREE produced a January to December 2012 profit and loss statement in response to the Enforcement Section's April 4, 2013 request for "a profit and loss statement for the past year for Telexfree, Inc." (hereinafter "Jan./Dec. 2012 P&L One") When asked to clarify certain line items, TelexFREE asserted that it could not locate the January to December 2012 profit and loss statement. On February 5, 2014, the Enforcement Section requested "[a] profit and loss statement (in accordance with U.S. GAAP Financial Statement standards) for Telexfree, Inc. for 2012." On February 26, 2014, TelexFREE submitted a two page January to December 2012 profit and loss statement (hereinafter "Jan./Dec. 2012 P&L Two"). A comparison of the Jan./Dec. 2012 P&L One and the Jan./Dec. 2012 P&L Two reveal significant discrepancies, including, but not limited to the following:

	<b>Jan./Dec 2012 P&amp;L One</b>	<b>Jan./Dec 2012 P&amp;L Two</b>
<b>Total Income</b>	\$1,864,939.70	\$2,834,835.70
<b>Agent Commission</b>	\$520,582.95	\$2,105,925.61
<b>Total Expenses</b>	\$784,899.22	\$2,333,893.09
<b>Net Operating Income</b>	\$1,080,040.48	\$478,251.56
<b>Net Income</b>	\$1,066,313.39	\$477,652.23

122. According to profit and loss statements for TelexFREE, Inc. and TelexFREE, LLC, the combined entities had income totaling \$1,209,345,258.47 from January 2012 to December 2013. Out of the approximately \$1.2 billion in income, only approximately \$238,000,000.00 in income came from the sale of VoIP Programs.
123. Based on a response to an interrogatory posed by the Division in the February 5, 2014 subpoena, TelexFREE stated that it had sold 783,771 wholesale packages (i.e. an AdCentral Package or an AdCentral Family Package) to “promoters” during the 2012 to 2013 period.
124. Assuming that each participant invests only in an AdCentral Package, TelexFREE owed participants a total of \$799,446,420.00 for the years 2012 and 2013. In the alternative, if participants invested exclusively in the AdCentral Family Package, TelexFREE owed \$3,997,232,100.00 to its participants. The majority of TelexFREE participants purchase one or more AdCentral Family Packages. According to data provided by TelexFREE, 88% of wholesale packages sold by Massachusetts based participants were AdCentral Family Packages.
125. Additionally, according to information provided by TelexFREE over 75% of wholesale packages sold worldwide were AdCentral Family Packages.
126. Even assuming that only 50% of investments were AdCentral Family Packages, TelexFREE would still owe participants a total \$2,398,897,200.00, a number that far exceeds TelexFREE’s reported revenues over the same period. This figure, of almost \$2.4 billion, does not include further payouts, such as the Team Builder bonus and Team Cycle bonus, as well as the 10% commission paid on retail sales. The inclusion

of these additional bonus payments would create an even greater disparity between TelexFREE's income and the money being paid out of the program to participants.

127. According to profit and loss statements provided by TelexFREE in response to a subpoena from the Division dated February 5, 2014, TelexFREE had income totaling \$1,209,345,258.47 and a gross profit of \$1,206,578,682.50 from January 2012 through December 2013. Of that gross profit, TelexFREE paid more than 75% as commissions to TelexFREE promoters.
128. Upon information and belief, the commissions paid by TelexFREE are unsustainable. TelexFREE participants receive the commissions for posting pre-written ads and recruiting and otherwise bring no value to the enterprise. The TelexFREE scheme hinges exclusively on the recruitment of new participants and the constant influx of new capital.
129. On April 23, 2013, TelexFREE produced a December 31, 2012 balance sheet for TelexFREE Inc. (hereinafter "Dec. 2012 Balance Sheet One"). When asked to clarify certain line items, TelexFREE asserted that it could not locate Dec. 2012 Balance Sheet One. On February 5, 2014, the Enforcement Section requested "[a] balance sheet for Telexfree, Inc. for 2012." On February 26, 2014, TelexFREE submitted a one page December 31, 2012 balance sheet (hereinafter "Dec. 2012 Balance Sheet Two"). A comparison of Dec. 2012 Balance Sheet One and Dec. 2012 Balance Sheet Two reveal significant discrepancies, including, but not limited to the following:



	<b>Dec. 2012 Balance Sheet One</b>	<b>Dec. 2012 Balance Sheet Two</b>
<b>Loan from Telexfree LLC</b>	\$93,880.88	\$701,525.00
<b>Total Liabilities</b>	\$102,084.83	\$709,728.95
<b>Total Equity</b>	\$1,066,313.39	\$477,652.23
<b>Total Assets</b>	\$1,168,398.22	\$1,187,381.18

130. The balance sheet for 2013 produced by TelexFREE to the Division in response to the Division's February 5, 2014 subpoena also differs significantly from the 2013 balance sheet submitted to the Washington Utilities and Transportation Commission for exact same period. For example, on the balance sheet submitted to the Division, TelexFREE lists a loan to Ympactus with a balance of \$0. The balance sheet submitted to the State of Washington lists a loan to Ympactus as an asset of \$291,808.02.

***d. TelexFREE bank accounts and online payment accounts***

131. TelexFREE operations flow through multiple domestic and international financial institutions.

***i. TelexFREE Bank Accounts***

132. Respondents produced 2012 and 2013 balance sheets for TelexFREE, Inc. and TelexFREE, LLC identifying multiple bank accounts (hereinafter "TelexFREE Bank Accounts").

133. A review of TelexFREE Bank Accounts records reveal unusual patterns of deposits, withdrawals and transfers—in many cases at very high frequencies and often in cash.
134. For example, a review of TelexFREE’s transaction history in accounts at one banking institution, reveal scores of daily deposits in small sums by participants. Upon information and belief, Respondents allow and encourage participants to structure deposits in order to avoid heightened bank scrutiny.
135. The Enforcement Section also reviewed a significant number of transactions initiated by the same investor on the same day. Upon information and belief, Respondents allow participants to structure multiple deposits under different participant usernames to create and maintain recruitment bonuses.
136. Certain deposits contain specific memos, including “T Builder” and “buying 1 Family,” indicating that the money be credited to a participant’s recruitment efforts.
137. The significant numbers of deposits reviewed by the Enforcement Section appear in amounts consistent with AdCentral Packages and AdCentral Family Packages.
138. In one bank account alone, Respondents deposited over \$12,000,000.00. Of the \$12,000,000.00, Enforcement Staff identified only nine deposits for \$49.90—approximately .004% of all deposit transactions.
139. Upon information and belief, certain withdrawals in bank accounts controlled by Respondents indicate Respondents use participant money for personal expenses, including international restaurant purchases.
140. Bank records indicate that in late December 2013, TelexFREE wired at least \$7 million from one of TelexFREE’s bank accounts to a personal bank account held by

Wanzeler. Upon information and belief, of the \$7,000,000.00 wired to Wanzeler, Wanzeler intended to transfer at least \$3,000,000.00 to Costa.

141. Bank records indicate that in early December 2013 TelexFREE wired approximately \$12,000,000.00 to various brokerage firms.

142. Bank records also indicate that on December 30, 2013 TelexFREE wired approximately \$1.7 million USD to Botafogo de Futebol e Regatas, a profession soccer club based in Rio de Janeiro, Brazil.

### **ii. TelexFREE Online Payment Processors**

143. In addition to bank accounts, TelexFREE operations flow through online payment processors, which processed at least 200,000 transactions and approximately \$300,000,000.00 between August 2012 and March 2014.

144. Of these 200,000 transactions reviewed by the Enforcement Section, only approximately 20,000 transactions represented purchases of the VoIP Program.

145. In one online payment account, TelexFREE, after refunds, credit card declines, and chargebacks, received only approximately \$540,000.00 from \$49.90 VoIP Programs—roughly 1.7% of processed transactions.

146. In another online payment account, TelexFREE received only approximately \$425,000.00 invoiced as \$49.90 transactions—roughly 0.18% of processed transactions.

### **iii. TelexFREE Investments**

147. TelexFREE additionally transferred over \$25,000,000.00 to multiple investment accounts held with broker-dealers registered in the Commonwealth.

#### iv. TelexFREE as a Financial Pariah

148. The financial activities of TelexFREE have raised red flags in many United States financial institutions where it maintains accounts.
149. At least one bank in Massachusetts made what it described as a “business decision” to terminate its relationship with TelexFREE after only 2 months.
150. Another financial institution that provided credit card payment processing services to TelexFREE terminated its relationship with TelexFREE after less than 6 months of doing business with TelexFREE.
151. In an email to Merrill explaining its decision to terminate its business with TelexFREE, an employee of the credit card payment processing service wrote the following:

No US Bank or Processor [ . . . ] will accept your [TelexFREE] business given that you are on month five of the Visa Chargeback monitoring program. **You are one of only three merchants in the USA on month five so you are a real hot-potato as they say.** (Emphasis Added)

152. During the same period, another credit processing service explained its decision to terminate business, stating, “[r]ecent Due-Diligence has led us to believe that **your company poses significant and unacceptable risk...**” (Emphasis Added)

##### *e. Lack of control over investments*

153. The Enforcement Section’s investigation has also uncovered non-conventional and uncontrolled TelexFREE investments demonstrating an utter lack of oversight by Respondents.
154. For all investments (whether through the TelexFREE Website or elsewhere), Respondents make no effort to determine if participants have the financial

wherewithal to invest, nor determine a participant's experience in investing before committing capital.

155. TelexFREE fails to verify investor residency information—information manipulated to circumvent legal issues TelexFREE faces elsewhere.
156. In testimony to the Division, one participant testified that he recruited two individuals from Brazil to join TelexFREE within the past six months.
157. Ympactus has had its assets frozen and activities enjoined by Brazilian authorities since June 2013.
158. Furthermore, using electronic money transfer services contracted by TelexFREE, one participant testified that his two TelexFREE recruits from Brazil are still able to receive cash payouts in Brazil from their TelexFREE accounts despite Ympactus' assets being frozen.
159. Upon information and belief, TelexFREE operations allow participants in Brazil to continue to invest money and withdraw money from their TelexFREE accounts by signing up as United States participants.
160. In response to the Division's subpoena dated February 5, 2014 requesting a "list of all Massachusetts investors currently enrolled in and participating in TelexFREE, Inc.," TelexFREE produced a list of 71,874 usernames linked to Massachusetts participants. TelexFREE included individual addresses for each "promoter." The addresses listed for Massachusetts linked accounts, include, but are not limited to, addresses located in some of the largest Brazilian cities, including Sao Paulo and Rio de Janeiro, in addition to other international locations, such as London.

161. TelexFREE has no restrictions on the number of participants who can join. For example, there is no evidence to suggest TelexFREE limits its participant concentration in certain geographical regions.
162. TelexFREE has no restriction on the number of AdCentral Packages or AdCentral Family Packages that a participant can buy.
163. TelexFREE has demonstrated a complete lack of oversight concerning its participants. For example, one TelexFREE participant, interviewed by the Enforcement Section, deposited over \$240,000.00 since late 2012 through wire transfers and personal check deposits, amassing at least 176 AdCentral Family Packages.
164. As testified to, multiple TelexFREE participants have purchased packages directly from other TelexFREE participants to secure subscription levels, rather than invest through TelexFREE. These participants received uncontrolled cash deposits outside of the TelexFREE system.
165. One Massachusetts business entity was organized to engage in the following activity:
- [t]o buy Telexfree packages, and all types of real estate within the USA or foreign countries. That is to deal and make various instruments. Dubai investors will furnish money to the corporation, and the corporation will invest said money.
166. Additionally, on February 14, 2014, the Enforcement Section identified an advertisement, posted on a publically available website, seeking to sell an automobile in the Commonwealth in return for AdCentral Packages and AdCentral Family Packages.

167. TelexFREE is aware of the volume of third-party information posted on the internet regarding TelexFREE. Yet nowhere on its website does TelexFREE notify investors of widespread false and unauthorized information.

*E. TelexFREE's Best Western Hotel Opportunity*

168. As early as May, 3, 2013 the TelexFREE Website contained a hyperlinked banner depicting a Best Western hotel with the description "Hotel Best Western Opportunity" (hereinafter "Best Western Offer") accessible to residents in the Commonwealth.

169. The Best Western Offer linked directly to a YouTube website found at <http://www.youtube.com/v/TJ8GO8IMobE> with the title "Hotel TelexFREE Tijuca." A review of the YouTube website containing the "Hotel TelexFREE Tijuca" video identifies username "vixmais" and a publish date of November 26, 2012.

170. Upon information and belief, YouTube username "vixmais" is associated with a Brazilian entity, Vix Mais Soluções (hereinafter "Vix Mais"), a Brazilian production company.

171. Vix Mais's publically available website lists TelexFREE as a client on at least three different website pages.

172. The YouTube video contains numerous references to a TelexFREE participants' ability to invest in new hotel construction sponsored by TelexFREE.

173. During various portions, the video describes an investment opportunity afforded to TelexFREE participants.

174. As translated, a voice states, "**A new opportunity for a return on your investment has arrived.** Best Western, TelexFREE Tijuca. With its unique location

for both business and pleasure travelers, the Best Western TelexFREE Tijuca is in an area that is developing and increasing in value at a rapid pace.” (Emphasis added).

175. The video continues:

**By investing in shares of Best Western TelexFREE Tijuca you could get a return of over 0.7% per month, once it’s stabilized. That's what it is, one of the best investments available on the market. And you have the privilege of knowing about it firsthand.** What are you waiting for? Come be part of this success. (Emphasis added).

176. In addition to the TelexFREE Website, TelexFREE also maintains a login only portion of the TelexFREE Website, accessible only to TelexFREE participants.

177. The TelexFREE Back Office is identical for all participants.

178. The TelexFREE Back Office, as accessible to all participants, contains various icons and information, including an icon described by Merrill as “Best Western, Telexfree Tijuca.”

179. According to testimony provided by Merrill, TelexFREE created the Best Western Offer to “give us some credibility because of this investment that the company made in Brazil.”

180. Pursuant to the Enforcement Section’s request for all agreements concerning the Best Western Offer, TelexFREE produced two documents: a one page document with the title “Sub-License and Services Agreement” (hereinafter “Best Western Agreement”) and 13 page document with the title “Contrato Hotel TelexFREE Tijuca” (hereinafter “Tijuca Hotel Agreement”) respectively.

181. The Tijuca Hotel Agreement, dated October 26, 2012, is an agreement (drafted in Portuguese) between Tijuca Design Hotel SPE LTDA and Ympactus, signed by both Costa and Lyvia.



182. The Tijuca Hotel Agreement calls for the investment of R\$32,350,000.00 by Ympactus.
183. On April 12, 2013, TelexFREE produced a one page Best Western Agreement, containing the watermark “Modelo.”
184. According to the Ministerio Publico do Estado do Acre (a Brazilian prosecutorial office), as of June 18, 2013, Brazilian authorities have frozen TelexFREE operations in Brazil.
185. During the period that the Best Western Offer was accessible in the Commonwealth, TelexFREE failed to disclose that Brazilian authorities had frozen Ympactus operations on the TelexFREE Website or according to any materials available to investors.
186. Upon information and belief, TelexFREE published the Best Western Offer to induce further investment in TelexFREE.
187. As accessed on February 13, 2014, the Enforcement Section also uncovered a Craigslist.org posting, titled “TelexFREE advertise & technology (Boston ma)” (hereinafter “Craigslist Offer”), highlighting the Best Western Offer.
188. The Craigslist Offer stated:
- The Company is doing a Joint Venture with Best Western in Brazil. TelexFREE and Best Western are building one new hotel (60% complete) as a Joint venture and will be refurbishing/renovating the existing 500, to be ready for the World Cup and Olympics 2016 in Brazil. **TelexFREE members will be allowed to purchase shares in this venture from October 2013 and receive income from these shares for an 11 year period. These shares are reserved for TelexFREE partners prior to being offered to the general public.** (Emphasis added).
189. The Craigslist Offer provided a Massachusetts contact number, linked to a Massachusetts participant.

190. According to testimony provided to the Division, the Telexfree participant responsible for posting the information on Craigslist located the information on the internet through a simple Google search.
191. Respondents have never filed an application for the registration of, or exemption for, securities to be offered in the Commonwealth during the Relevant Time Period.
192. Respondents have never registered in Massachusetts as broker-dealer, an agent of a broker-dealer or an issuer, an investment adviser or an investment adviser representative, or in any other capacity during the Relevant Time Period.

***F. Recent Unexpected Changes to TelexFREE's Passive Income Scheme and Bankruptcy Filing***

193. On March 9, 2014, TelexFREE changed the terms of the Passive Income Scheme.
194. As of April 2, 2014, TelexFREE locked payouts to participants pending the fulfillment of new sales requirements imposed by TelexFREE.
195. Further, upon information and belief, at least as of April 4, 2014, TelexFREE changed its method of payment to participants from dollars to TelexFREE "credits."
196. On April 14, 2014, TelexFREE filed for Chapter 11 bankruptcy protection in Nevada.

**VIII. VIOLATIONS OF LAW**

**Count I – Violations of MASS. GEN. LAWS ch. 110A, § 101**

197. Section 101 of the Act provides:

It is unlawful for any person, in connection with the offer, sale or purchase of any security, directly or indirectly

- (1) to employ any device, scheme, or artifice to defraud,
- (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the

- statements made, in light of the circumstances under which they are made, not misleading, or
- (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

198. The Enforcement Section herein re-alleges and restates the allegations of fact set forth in paragraphs 1 through 196 above.

199. The conduct of Respondents as described above constitutes violations of MASS. GEN. LAWS ch. 110A, § 101.

**Count II - Violations of MASS. GEN. LAWS ch. 110A, § 201**

200. Section 201 of the Act provides, in pertinent part: “(a) It is unlawful for any person to transact business in this commonwealth as a broker-dealer or agent unless he is registered under this chapter.” MASS. GEN. LAWS ch. 110A, § 201(a).

201. The Division herein restates and re-alleges the facts and allegations set forth in paragraphs 1 through 196 above.

202. The conduct of Respondents, as described above, constitutes a violation of MASS. GEN. LAWS ch. 110A, § 201(a).

**Count III – Violations of MASS. GEN. LAWS ch. 110A, § 301**

203. Section 301 of the Act provides:

It is unlawful for any person to offer or sell any security in the commonwealth unless:--

- (1) the security is registered under this chapter;
- (2) the security or transaction is exempted under section 402; or
- (3) the security is a federal covered security.

204. The Enforcement Section herein re-alleges and restates the allegations of fact set forth in paragraphs 1 through 196 above.

205. The conduct of Respondents as described above constitutes violations of MASS. GEN. LAWS ch. 110A, § 301.

**Count IV – Violations of MASS. GEN. LAWS ch. 110A, § 404**

206. Section 404 of the Act provides:

It is unlawful for any person to make or cause to be made, in any document filed with the secretary or in any proceeding under this chapter, any statement which is, at the time and in the light of the circumstances under which it is made, false or misleading in any material respect.

207. The Enforcement Section herein re-alleges and restates the allegations of fact set forth in paragraphs 1 through 196 above.

208. The conduct of Respondents as described above constitutes violations of MASS. GEN. LAWS ch. 110A, § 404.

**IX. STATUTORY BASIS FOR RELIEF**

209. Section 407A of the Act entitled “Violations; Cease and Desist Orders; Costs” provides, in pertinent part:

(a) If the secretary determines, after notice and opportunity for hearing, that any person has engaged in or is about to engage in any act or practice constituting a violation of any provision of this chapter or any rule or order issued thereunder, he may order such person to cease and desist from such unlawful act or practice and may take such affirmative action, including the imposition of an administrative fine, the issuance of an order for an accounting, disgorgement or rescission or any other such relief as in his judgment may be necessary to carry out the purposes of [the Act].

210. The Enforcement Section herein re-alleges and restates the allegations of fact set forth in paragraphs 1 through 196 above.

211. Respondents, directly and indirectly, engaged in the acts and practices set forth in the Complaint above, and it is the Enforcement Section’s belief that Respondents will continue to engage in acts and practices similar in subject and purpose that constitute

violations of Sections 101, 201, 301 and 404 of the Act if not ordered to cease and desist.

#### **X. PUBLIC INTEREST**

For any and all of the reasons set forth above, the following relief is necessary and appropriate in the public interest and for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Massachusetts Uniform Securities Act.

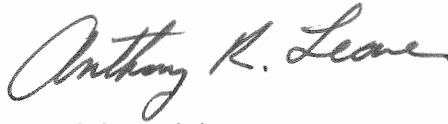
#### **XI. RELIEF REQUESTED**

Wherefore, the Enforcement Section of the Division requests that the Director or Presiding Officer take the following actions:

- A. Find that all the sanctions and remedies as detailed herein are necessary and appropriate in the public interest and for the protection of investors and consistent with the purposes fairly intended by the policy and provisions of the Massachusetts Uniform Securities Act;
- B. Find as fact the allegations set forth in paragraphs 1 through 196 inclusive, of the Complaint;
- C. Require Respondents to permanently cease and desist from further conduct in violation of the Act and Regulations in the Commonwealth;
- D. Require Respondents to provide an accounting of all proceeds which were received as a result of the alleged wrongdoing, and to offer restitution to and fairly compensate investors for those losses attributable to the alleged wrongdoing;

- E. Require Respondents to disgorge all profits and other direct or indirect remuneration received from the alleged wrongdoing;
- F. Censure Respondents;
- G. Impose an administrative fine on Respondents in such amount and upon such terms and conditions as the Director or Presiding Officer may determine; and
- H. Take any such further actions that may be necessary or appropriate in the public interest for the protection of Massachusetts investors.

**MASSACHUSETTS SECURITIES DIVISION  
ENFORCEMENT SECTION**



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Dated: April 15, 2014

2014 APR 15 PM 5:12  
SECURITIES DIVISION  
MASSACHUSETTS