Docket #0166 Date Filed: 7/3/2014

UNITED STATES BANKRUPTCY COURT

DISTRICT OF MASSACHUSETTS

In re: TELEXFREE, LLC, Debtor.	Case No. 4:14-BK-40987 Chapter 11
WALDEMARA MARTINS AND LEANDRO VALENTIM – PUTATIVE CLAIMS REPRESENTATIVES AND THOSE SIMILARLY SITUATED, Plaintiffs, v. TELEXFREE, INC., f/k/a COMMON CENTS COMMUNICATIONS, INC. et al., Defendants.	Adv. No. 14-ap-04044-MSH

MARTINS PLAINTIFFS RESPONSE TO DEFENDANT WANZELER'S MOTION FOR AN EXTENSION OF TIME TO ANSWER OR OTHERWISE RESPOND TO COMPLAINT

Plaintiffs Waldemara Martins and Leandro Valentim, individually and as Putative Class Representatives (hereafter "Plaintiffs"), oppose the request of Defendant Carlos N. Wanzeler ("Wanzeler") for an extension of time to answer or otherwise respond to the Plaintiffs' Complaint. In support of this Opposition, Plaintiffs state the following based upon the investigation of Plaintiffs and counsel, including a review of related legal and regulatory filings, press releases, and media reports:

I. FACTS

1. Carlos N. Wanzeler's last known and usual place of abode is 373 Howard Street, Northborough, Massachusetts. Service was timely made at this address. Wanzeler intentionally fled the jurisdiction of this, and other courts, to avoid defending accusations against him, including those set forth in the complaint counsel has requested an extension of time to respond to.

2. Wanzeler co-founded and is/was a principal, co-owner, or officer of Defendants TelexFree, Inc., TelexFree, LLC, and TelexFree Financial Inc., as well as related entities TelexElectric, LLLP, Telex Mobile Holdings, Inc., and Disc Matrix. ("TelexFree")

3. Wanzeler, and others, co-masterminded the TelexFree pyramid Ponzi scheme[1] that is the subject of ongoing federal and state criminal and civil actions and investigations.

4. TelexFree representatives have conceded that its business model could not be sustained by sales of TelexFree's product – VoIP - alone. In fact, the sale of promoter "memberships" accounted for over 99 % of TelexFree's income.[2] TelexFree Promoters were guaranteed compensation in exchange for recruiting other investors to pay the membership fees. True to a pyramid Ponzi scheme, the income from new investments paid older investors, with the bulk going to Wanzeler and his cohorts.[3]

5. The core of the Passive Income Scheme centered on the investment of either $289.00 or $1,375.00. A participant who invested $289.00 received one advertisement kit and ten VoIP Programs. A participant who invested $1,375.00 received five advertisement kits and fifty VoIP Programs. Over the course of the year, participants who initially invested

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[1] To avoid repetition, Plaintiffs' incorporate the allegations set forth in their Class Action Complaint and the Civil Complaint filed by the Securities Exchange Commission in the United States District Court by reference. ("Filings") (Attachment 1- SEC Civil Complaint, Docket No. 14-11858 NMG).

[2] According to an investigation conducted by the United States Securities and Exchange Commission, less than one-half of one percent of TelexFree's total revenue came from sales of TelexFree's VOIP service between August 2012 and March 2014. During this same period TelexFree received approximately $1.3 million from the sale of about 26,300 VoIP Programs. During this period, TelexFree promised to pay Promoters returns of over $1.1 billion – nearly a thousand times the amount of revenue derived from sales of the VoIP Programs.

[3] Over the same period, TelexFree had 783,771 investments of either $289.00 or $1,375.00 totaling $880,189,455.32. Assuming that 50% of all participant investments were for $1,375.00, TelexFree would owe $2,398,897,200.00. That figure eclipses TelexFree's reported total revenues over the same period without taking into account contractually guaranteed bonuses, recruitment commissions, and revenue sharing.

$289.00 and did nothing more than cut and paste one advertisement per day were promised a profit of at least $681.00-- a return in excess of 200%. A participant who initially invested $1,375.00, and did nothing more than cut and paste five advertisements per day, was promised a profit of at least $3,675.00 -- a return in excess of 350%. The Passive Income Scheme also offered further returns through various bonus structures and membership recruitment commissions. By recruiting multiple individuals, TelexFree participants also became eligible for revenue sharing bonuses of up to 3% of TelexFree's VoIP Program sales.

6. Wanzeler's pyramid scheme unlawfully bilked Plaintiffs, and members of a Putative Class they seek to represent, out of at least $300,000,000.00.[4] *Id.* According to TelexFree Trustee Darr at this Court's last hearing, assets recovered to date amount to a little over $100,250,000.00.

7. Wanzeler has offered no evidence to sustain his burden in support of an inference that the length of the delay imposed by the granting of the requested extension, should it be granted, would be honored, because the record contains no evidence that would peg a foreseeable end date to his flight from justice.[5] Wanzeler did not attach an affidavit to his submission and failed to otherwise provide any evidence to carry his burden.

8. Wanzeler did not provide any evidence to support an inference that he will timely respond if the requested extension is granted. The evidence before this Court contradicts such an inference.

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[4] As detailed in pleadings on file with this Court and public reporting, many reports state the total dollars in issue exceed $750,000,000.00.

[5] As this Court is aware, despite the fact that Wanzeler's wife was arrested and initially held without bail, following her foiled attempt to join him in Brazil, Wanzeler refused to return to the U.S. Moreover, Wanzeler has not been seen or heard from subsequent to her release. http://www.bostonglobe.com/metro/2014/05/24/judge-frees-wife-telexfree-owner-accused-fraud-alleged-global-pyramid-scam/QujW5kmVdeK87XF9E7ViaN/story.html

9. The evidence before this Court includes his flight from justice, the uncontroverted mathematics related to TelexFree's operations, Wanzeler's transfer of TelexFree funds to shell corporations, to himself, and to his family shortly before his flight from justice, Wanzeler's refusal to obey a court ordered injunction, Wanzeler's refusal to voluntarily return overseas TelexFree funds he controls to the United States, and more. All evidence only supports an inference that if the requested extension is granted he will not timely respond

10. Assuming Wanzeler's purported counsels have a retention agreement or otherwise represent him, Wanzeler's counsel has an ethical duty to promptly and zealously represent his client. *See,* Mass. R. Prof. Cond. 1.3 In filing the request for an extension, his lawyers have satisfied that duty.

11. Upon uncontroverted information and belief, prior to his role in TelexFree, Wanzeler had no assets that could fund his defense by the law firm that seeks to represent him here.

12. Upon uncontroverted information and belief, Wanzeler is using, or intends to use funds he obtained from TelexFree's operations, in violation of prior injunctions, and without approval of this court or the appointed TelexFree Trustee. (See Attachment 2 – Wanzeler Injunctions)

13. Distinct from the ethical obligations of his counsel is Wanzeler's affirmative burden to show cause for why the extension should be granted. Wanzeler has not offered any evidence that satisfies this burden of proof. For example, Wanzeler has not filed an affidavit that sets forth the facts supporting his request by establishing just cause his intention to timely respond if the extension is granted or even an intent to participate in good faith. In fact, Wanzeler offers nothing in support.

14. Upon uncontested information and belief, Wanzeler has gone into hiding in Brazil at a

location he has refused to disclose. Fugitive Wanzeler is believed to be residing luxuriously in Vitoria, Brazil. Upon uncontested information and belief, Wanzeler's decision to become a fugitive was his alone.

15. Wanzeler has refused to voluntarily return to the United States to submit to the jurisdiction of the courts presiding over TelexFree related civil and criminal proceedings against him.[6]

16. Upon uncontested information and belief, Wanzeler has made no representation that he plans to return to the United States, that he plans to come out of hiding, or that he plans to return the assets he secreted out of the United States to the United States. http://behindmlm.com/companies/telexfree/telexfree-trustee-inches-closer-to-chapter-7-liquidation/.

17. The New York Office of the United States Attorney has publically stated that Brazilian authorities refuse to return Carlos Wanzeler to face the fraud indictment in Massachusetts because the United States does not have an extradition treaty with Brazil. [7]

18. Wanzeler is using Brazil's favorable anti-extradition laws to avoid extradition to the United States.

19. At the same time that Wanzeler intentionally acts to avoid criminal prosecution for his illegal actions and the reach of any enforcement mechanism this court may try to fashion, he seeks this court to extend him a courtesy. The effect of any extension would be to further delay the civil claims of Plaintiffs and members of the class they seek to

[6] See Healy, Beth, "TelexFree co-owner finds refuge in Brazil," THE BOSTON GLOBE (June 15, 2014), http://www.bostonglobe.com/business/2014/06/14/telexfree-owner-wanzeler-takes-refuge-brazilian-seaside-city-while-partner-awaits-trial-prison/UU1V6krOMLAH0gi2Z6f0NP/story.html.

[7] http://www.nydailynews.com/news/national/wife-accused-billion-dollar-ponzi-schemer-fly-brazil-feds-article-1.1794070#ixzz35rA6j6AP

represent. [8]

20. On May 9, 2014, the United States Department of Homeland Security filed criminal proceedings against Wanzeler and Merrill for conspiracy to commit wire fraud. Recently, Wanzeler's wife was held without bail following her arrest at J.F.K. Airport with cash and a one-way ticket to Brazil. Mrs. Wanzeler is now confined to her home with an ankle bracelet. Notwithstanding the arrest of his wife, and repeated requests by United States authorities to surrender, Wanzeler has steadfastly refused to return to the U.S.[9] and remains a fugitive from justice. Nothing, not even the arrest of his wife and separation from his children, has prompted him to resurface in any way.

21. Upon uncontested information and belief, Wanzeler is in possession of funds withdrawn from TelexFree's coffers or funds that he otherwise obtained from the pyramid Ponzi scheme. According to his criminal defense counsel, Wanzeler has other funds in overseas accounts.

22. Upon uncontested information and belief, Wanzeler has funds in overseas banks and refuses to voluntarily tender them to United States' authorities. During a hearing before US District Court Judge Nathaniel Gorton, Wanzeler's defense counsel confirmed this.

23. On April 15, 2014, the Enforcement Section of the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts commenced administrative proceedings against diverse entities. Dkt No. 2014-4.

24. On April 15, 2014, agents of the FBI and Department of Homeland Security raided TelexFree, Inc.'s office in Marlborough, Massachusetts. During that search, federal

[8] The Martin complaint was filed on May 3, 2014. Plaintiffs filed a Motion to Withdraw reference almost immediately. Plaintiffs have not discussed extended the time act on that request with any party or counsel and again request this court to act on that request.

[9] http://www.bostonglobe.com/metro/2014/05/24/judge-frees-wife-telexfree-owner-accused-fraud-alleged-global-pyramid-scam/QujW5kmVdeK87XF9E7ViaN/story.html

agents recovered $40 million worth of checks, including $2 million in checks written out to his wife, Katia Wanzeler.

25. On April 15, 2014, agents of the Department of Homeland Security caught defendant Joseph H. Craft after he attempted to flee the raid with about $38 million in treasury checks, and a laptop containing data that was the subject of the search warrant. Craft was handpicked by Wanzeler to serve as Certified Public Accountant and/or Chief Financial Officer for TelexFree entities, and is named as Wanzeler's co conspirator in the pyramid Ponzi scheme based on his integral role and advice.[10]

II. STANDARD OF REVIEW

Whether or not to grant Wanzeler's Motion for Extension is an equitable determination. This Court must take into account all relevant circumstances, including the perspective of the Plaintiff creditors. Factors this Court will consider when deciding if the motion for enlargement is made with good cause include (1) the danger of prejudice to the debtor, (2) the length of the delay and the potential impact on judicial proceedings, (3) the reason for delay, including whether it was within the reasonable control of the moving party, and (4) whether the moving party acted in good faith. *Pioneer Inv. Servs. Co. v. Brunswick Assoc. Ltd. P'ship*, 507 U.S. 380 (1993); *In re Shepherds Hill Development Co., LLC*, 316 B.R. 406 (Bkrpt. Ct. App. 1st Cir. 2004).[11]

[10] To avoid repetition, and to preserve this Court's time Plaintiffs' incorporate the allegations set forth in their Class Action Complaint and the complaint filed by the Securities Exchange Commission by reference. ("Filings")

[11] If appealed, Appellate courts would apply the "clearly erroneous standard" to findings of fact, and de novo review to conclusions of law. A Bankruptcy Court's denial of a Motion for Extension is reviewed for abuse of discretion. *Lure Launchers, LLC v. Spino*, 306 B.R. 718 (Bkrpt Ct. App. 1st Cir. 2004

III. ARGUMENT

This Court Should Deny Wanzeler's Motion Because He Has Not Shown Cause and Failed To Offer Any Evidence In Support of His Request

This Court may, only for cause shown, enlarge the period of time in which Wanzeler must respond to the complaint. Fed. R. Bankr. P. 9006(b).[12] The focus of this Court's analysis must be upon the nature of the neglect, as the "reason-for-delay" factor will always be critical to the inquiry." *Hospital del Maestro v. N.L.R.B.* 263 F.3d 173 (1st Cir. 2001) *(*quoting *Lowry v. McDonnell Douglas Corp.*, 211 F.3d 457 (8th Cir.2000)).

This Court should deny Wanzeler's Request for Extension because he acted in bad faith and continues to violate the law. In his filing, Wanzeler did not provide any evidence to show cause. The only "cause" is Wanzeler's absence from the country – a cause that is directly within Wanzeler's control and that he may remedy at any time. Wanzeler did not provide any evidence to support an inference that if he is granted an extension he will timely respond, further supporting Plaintiffs' argument that This Court should deny Wanzeler's Request for an Extension because it would negatively impact the related judicial proceedings. The fact that Wanzeler can easily remedy the basis for the denial of his requested extension at any time also supports Plaintiff's position that this Court should deny Wanzeler's Request for an Extension because there is no danger of prejudice to the Debtor. **[13]**

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[12] The standard of review of the order on a Fed. R. Bankr. P. 9006(b) request is abuse of discretion.

[13] Plaintiff's also rely on Waldemara Martins' Affidavit in Support of Martins Plaintiffs' Response to Defendant Wanzeler's Motion for an Extension of Time to Answer or Otherwise Respond to Complaint. (Attachment 3)

A. This Court Should Deny Wanzeler's Request for Extension Because He Acted in Bad Faith and In Violation of the Law.

Bad faith by the moving party is a well-accepted basis for denying a request for enlargement. [14] Wanzeler has acted in bad faith by fleeing the United States, and continues to act in bad faith by not returning to prepare his defenses. Therefore, his request for an extension should be flatly denied.

For example, Wanzeler is a fugitive from justice and the reason for his attorney's request for an extension is necessarily based, at least in part, on that fact Wanzeler has gone into hiding. Whereas good faith could be shown if circumstances of the reason-for-delay were beyond Wanzeler's control – he is in complete control of his whereabouts and can return to the United States at any time. Plaintiffs, and Putative class members, should not be held in limbo because Wanzeler knowingly chose to break the law and flee the jurisdiction of the United States, and chooses to continue to remain a fugitive.

B. This Court Should Deny Wanzeler's Request for an Extension Because It would Negatively Impact the Related Judicial Proceedings.

The absence of an evidentiary showing that Wanzeler plans to submit to the jurisdiction of this court leaves no room for favorable inferences or a courtesy. His continued foreseeable absence raises and supports an inferences that granting the extension will negatively impact the related judicial proceedings in a multitude of ways.

Wanzeler did not provide any evidence to support the inference, that if the requested extension is granted he will timely respond to the complaint. Plaintiffs are entitled by right, to

[14] See *Pioneer Inv. Services Co. v. Brunswick Associates Ltd. Partnership,* 507 U.S. 380, at 403 (1993) (noting that "excusable neglect" in Black's Law Dictionary seems to require a demonstration of good faith on the party seeking an enlargement and some reasonable basis for noncompliance, and absent this showing the relief will be denied. Also noting that if Congress wanted to depart from this accepted meaning of "excusable neglect" it would have so indicated.)

truthfully answered and complete discovery responses. Plaintiffs, and this Court, have no reasonable basis upon which to conclude that this fugitive from justice will provide timely, accurate and complete discovery responses. Even if Wanzeler does respond, and even after the great procedural delay that will follow, there is no enforcement mechanism, or cost effective remedy that this Court can fashion, should Wanzeler provide false or unreliable responses because he is beyond the jurisdiction of this Court. The only certainty is further delay, additional expense, and additional inefficiencies. Granting the extension will negatively impact the litigation and immediately invite disruption of the orderly flow of this litigation. Moreover, the disruption, further delay, and additional expenses and inefficiencies will continue on indefinitely.

Wanzeler's status as a fugitive from justice distinguishes him from the other Defendants who have accepted service and have otherwise submitted to the jurisdiction of this Court.[15] Wanzeler knowingly decided to flee the country, refused to submit to the authority and jurisdiction of this court, and went to the extreme of leaving the jurisdictional bounds of the United States. The granting of an extension rewards Wanzeler for fleeing the jurisdiction of this court, and may serve as an example for others, including the as of yet unnamed Insider Promoter defendants, to gather assets and leave the country because in doing so they will not be held procedurally accountable.

Plaintiffs Waldemara Martins and Leandro Valentim also demand this court conduct an inquiry to determine whether or not Wanzeler is in communication with the firm that seeks to represent him prior to ruling on their request for an extension, or allow Plaintiffs to so inquire.[16]

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[15] Plaintiffs' decision not to grant Wanzeler's request for an extension until he returns to the United States is logically based and will minimize the time and resources related to the prosecution of the claims against him.

[16] Prior to his role in TelexFree, Wanzeler had no assets that could fund his defense by the law firm that seeks to represent him here. Clearly, Wanzeler has used, or intends to use, funds he obtained from TelexFree's operations in violation of prior injunctions and without approval of this court or the appointed TelexFree Trustee. Although Plaintiffs, Waldemara Martins and

Even assuming a response is cobbled together by his counsel without input from Wanzeler, his unlawful absence will turn routine discovery into a time and resource consuming "black hole". His failure to respond to Interrogatories or Requests for Admission (or after greater wasted effort - a Deposition Notice) will eventually lead to great procedural delay by operation of the related procedural rules he seeks to skirt, and will result in default. Granting the request for an extension will certainly result in wasteful posturing and delay, requests for further extensions and related objections, and more. Without Wanzeler submitting to the jurisdiction of this Court, his counsel will be in no better position to respond to the complaint, or discovery, at a date in the future. The inability to conduct discovery will negatively impact this litigation.

In response to Wanzeler's intentional flouting of this court's jurisdiction and authority, it should deny the motion. So long as he remains a fugitive from justice, this Court lacks any enforcement power against Wanzeler other than enforcement of the rules of procedure, but it can and should enforce the rules. Allowance will only result in additional burdens to be carried by his financial victims who have submitted to the jurisdiction of this Court and are seeking to actively pursue all avenues available to them.[17] The granting of Wanzeler's request for an extension will certainly negatively impact the orderly progression of this litigation and it should be denied.

——————————— (continued)

Leandro Valentim, lack the formal voice that would come from the Creditor's Committee they have asked be formed, as individual victims they object to the dissipation of TelexFree's assets by Wanzeler and argue that under the unusual circumstances present here, Wanzeler should be forced to account for the source of the significant funds he has used, or intends to use, to fund his defense. Three out of state lawyers have requested to be admitted pro hac vice. More will likely bill without related appearances. This court is requested to take judicial notice of Proskauer Rose, LLP's hourly rates and the number of counsel already seeking to appear on behalf of the fugitive Defendant, Wanzeler. The alternative would negatively impact this litigation.

[17] See, e.g Picard v. JPMorgan Chase & Co et al, U.S. Supreme Court, No. 13-448; and Janvey v. Alguire et al, U.S. Supreme Court, No. 13-913.

C. This Court Should Deny Wanzeler's Request for an Extension Because There is No Danger of Prejudice to the Debtor.

There is no danger of prejudice to the debtor because if Wanzeler returns to the United States his request for an extension, or to remove a default judgement, would be on solid ground. Alternatively, there is no benefit in forcing the putative class to remain in limbo because they are unable to individually act to protect their interests against this non-bankrupt party. The granting of an extension will only exacerbate the risk of harm to the Plaintiffs and the Putaive Class.

CONCLUSION

Wanzeler has acted in bad faith and his request for an extension should be flatly denied. Wanzeler is a fugitive from justice and the reason for his attorney's request for an extension is necessarily based, at least in part, on that fact. Wanzeler has offered no further reason-for-delay[18]. The granting of Wanzeler's request for an extension will certainly negatively impact the orderly progression of this litigation and it should be denied. In the alternative, the Martins Plaintiffs suggest this Court deny, without prejudice, Wanzeler's request to extend the time for a response pending his return to the United States no later than 20 days following its entry of the order on the docket.[19] A longer accomodation will result in unnecessary delays.

Wherefore, Plaintiffs Waldemara Martins and Leandro Valentim, individually and as Putative Representatives of a Putative Class, respectfully request Defendant Wanzeler's Motion for an Extension of Time to Answer or Otherwise Respond to the Complaint is denied.

[18] See *Hospital Del Maestro v. N.L.R.B.*, 263 F.3d 173 (1st Cir. 2001) (stating that even if there is a favorable juxtaposition of the good faith, danger of prejudice, and judicial proceeding factors, a poor showing of "reason-for-delay" may be enough to not rise to the level of "excusable negligence")

[19] An accomodation of one week to return to the United States is reasonable. His ability to travel between Brazil and Boston was demonstrated when he fled the country.

THE PLAINTIFFS REQUEST A HEARING ON THE DEFENDANT'S MOTION.

Dated: July 3, 2014

Respectfully submitted,

PLAINTIFFS,
By their Attorney

/s/ Robert J. Bonsignore
Robert J. Bonsignore, BBO #547880
BONSIGNORE, LLC
193 Plummer Hill Road
Belmont, NH 03220
Telephone: 781-856-7650
rbonsignore@classactions.us
Attorney for Plaintiffs Waldemara Martin and Leandro Valentim, Putative Claims Representatives and Those Similarly Situated

CERTIFICATE OF SERVICE

I, Robert J. Bonsignore, hereby certify that on this 3rd day of July, 2014, the foregoing document was served upon counsel of record in the above matter, via the ECF system of the Court, and via first class mail for those parties not registered.

/s/ Robert J. Bonsignore

Robert J. Bonsignore

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION, Plaintiff, v. 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, Defendants, and TELEXFREE FINANCIAL, INC., TELEXELECTRIC, LLLP and TELEX MOBILE HOLDINGS, INC., Relief Defendants.	Case No. JURY TRIAL DEMANDED

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 Telefonia" (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 Extravanganza." 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 Brazilan 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,



Frank C. Huntington (Mass. Bar No. 544045)
Senior Trial Counsel
Kevin M. Kelcourse (Mass. Bar No. 643163)
Assistant Director
Deena R. Bernstein (Mass. Bar No. 558721)
Senior Trial Counsel
James M. Fay (Mass. Bar No. 553435)
Senior Counsel
Scott Stanley (NY Bar No. 4504601)
Staff Attorney
Martin F. Healey (Mass Bar No. 227550)
Regional Trial Counsel

Attorneys for Plaintiff
SECURITIES AND EXCHANGE COMMISSION
Boston Regional Office
33 Arch Street
Boston, MA 02110
(617) 573-8960 (Huntington direct)
(617) 573-4590 (fax)
huntingtonf@sec.gov (Huntington email)

Dated: April 15, 2014

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff

v.

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. CROSY and
FAITH R. SLOAN,

Defendants

and

TELEXFREE FINANCIAL, INC.,
TELEXELECTRIC, LLP and
TELEX MOBILE HOLDINGS, INC.

Relief Defendants

Case No. 14-cv-11858-NMG

~~[Proposed]~~
CONSENT ORDER AS TO
DEFENDANT CARLOS WANZELER

Plaintiff Securities and Exchange Commission ("the Commission") and defendant Carlos Wanzeler having consented to the entry of a Court Order on the terms set forth below, as evidenced by their motion filed with this Court:

I.

IT IS HEREBY ORDERED that Wanzeler and each of his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, are preliminarily enjoined from violating Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)] by, directly or indirectly, through the use of any means or instrumentalities of interstate commerce or the mails or of any facility of any national securities exchange,

(a) employing any device, scheme or artifice to defraud;

(b) obtaining any money or property by means of any untrue statement of a material fact or any omission 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) engaging in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser, in the offer or sale of any securities.

II.

IT IS HEREBY FURTHER ORDERED that Wanzeler and each of his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, are preliminarily enjoined from violating Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5] by, directly or indirectly, through the use of the

means or instrumentalities of interstate commerce or of the mails or of any facility of any national securities exchange,

(a) employing any device, scheme or artifice to defraud;

(b) making any untrue statement of a material fact or omitting 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) engaging in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

III.

IT IS HEREBY FURTHER ORDERED that Wanzeler and each of his agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, are restrained from violating Section 5 of the Securities Act [15 U.S.C. § 77e] by, directly or indirectly, in the absence of any applicable exemption:

(a) Unless a registration statement is in effect as to a security, making use of any means or instruments of transportation or communication in interstate commerce or of the mails to sell such security through the use or medium of any prospectus or otherwise;

(b) Unless a registration statement is in effect as to a security, carrying or causing to be carried through the mails or in interstate commerce, by any means or

instruments of transportation, any such security for the purpose of sale or for delivery after sale; or

(c) Making use of any means or instruments of transportation or communication in interstate commerce or of the mails to offer to sell or offer to buy through the use or medium of any prospectus or otherwise any security, unless a registration statement has been filed with the Commission as to such security, or while the registration statement is the subject of a refusal order or stop order or (prior to the effective date of the registration statement) any public proceeding or examination under Section 8 of the Securities Act [15 U.S.C. § 77h]

IV.

IT IS HEREBY FURTHER ORDERED that:

A. Wanzeler and each of his agents, servants, employees and attorneys and those persons in active concert or participation with them who receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, shall hold and retain funds and other assets of defendant presently held by them, for their direct or indirect benefit, under their direct or indirect control or over which they exercise actual or apparent investment or other authority, in whatever form such assets may presently exist and wherever located, and are restrained from taking any actions to withdraw, sell, pay, transfer, dissipate, assign, pledge, alienate, encumber, dispose of, or diminish the value of in any way (including, but not limited to, making any charges on any credit card or draws on any other credit arrangement), any funds and other assets of Wanzeler presently held by him, for their direct or indirect benefit, under their direct or indirect control, or over which they exercise

actual or apparent investment or other authority, in whatever form such assets may presently exist and wherever located.

B. All banks, brokerage and other financial institutions and other persons or entities (including but not limited to payment processors, investors and/or promoters) that receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, holding any funds or other assets in the name, for the direct or indirect benefit, or under the direct or indirect control of defendants or over which defendant exercise actual or apparent investment or other authority, in whatever form such assets may presently exist and wherever located (including assets held at), shall hold and retain within their control and prohibit the withdrawal, removal, sale, payment (including, but not limited to, any charges on any credit card or draws on any other credit arrangement), transfer, dissipation, assignment, pledge, alienation, encumbrance, diminution in value, or other disposal of any such funds or other assets; and that such funds and assets are hereby frozen.

C. The above Paragraphs IV.A and IV.B shall immediately cease to apply to any assets located within the United States, including any bank, brokerage or other financial institution account, which becomes subject to any later order entered by any federal court as a result of proceedings which may be filed by the United States or any department or agency thereof under any federal civil or criminal forfeiture statute, to the extent such later order requires the transfer of any asset to the United States government.

V.

IT IS HEREBY FURTHER ORDERED that Wanzeler and each of his agents, servants, employees and attorneys, and those persons in active concert or participation with him who receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, and each of them, shall, within five (5) days of receiving actual notice of this Order, take such steps as are necessary to repatriate and deposit into the registry of the Court in an interest bearing account, any and all funds or assets that presently may be located outside of the United States that were obtained directly or indirectly from investors and/or "promoters."

VI.

IT IS HEREBY FURTHER ORDERED that Wanzeler and each of his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, are hereby prohibited from soliciting, accepting, or depositing any monies obtained from actual or prospective investors or "promoters" pending the resolution of this action nor may he open new bank accounts.

VII.

IT IS HEREBY FURTHER ORDERED that Wanzeler and each of his agents, servants, employees and attorneys and those persons in active concert or participation with him who receive actual notice of this Order by personal service or otherwise, including via facsimile or email transmission, or overnight delivery service, are hereby restrained from destroying, mutilating, concealing, altering, disposing, or transferring custody of any items, including but not limited to any books, records, documents, correspondence, contracts, agreements, assignments,

obligations, tape recordings, computer media or other property relating to defendants or the misconduct described in the Complaint.

VIII.

IT IS HEREBY FURTHER ORDERED that the Commission, notwithstanding the provisions of Fed. R. Civ. P. 26(d) and the Local Rules of this Court, may continue discovery in aid of its asset freeze in this case.

IX.

IT IS HEREBY FURTHER ORDERED that this Consent Order is entered without prejudice to any party's right to present any evidence or argument to the Court and to seek any modification of or relief from any part of this Order. Unless otherwise ordered by the Court, this Consent Order shall remain in effect until entry of a Final Judgment or other final disposition of this action.

It is SO ORDERED.

/s/ Nathaniel M. Gorton
NATHANIEL M. GORTON
UNITED STATES DISTRICT JUDGE

Dated: May 9, 2014 at 5:00 ~~a.m.~~/p.m.

4822-1441-7883, v. 1

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION, Plaintiff v. 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. CROSY and FAITH R. SLOAN, Defendants and TELEXFREE FINANCIAL, INC., TELEXELECTRIC, LLP and TELEX MOBILE HOLDINGS, INC. Relief Defendants	Case No. 14-cv-11858-NMG

ASSENTED-TO MOTION FOR LIMITED RELIEF FROM "CONSENT ORDER AS TO DEFENDANT CARLOS WANZELER"

Now comes Katia Wanzeler, and with the assent of Plaintiff Securities and Exchange Commission ("SEC"), hereby moves this Court for limited relief from the Consent Order as to Carlos Wanzeler entered on May 9, 2014. In support of this motion, Ms. Wanzeler states as follows:

1. Katia Wanzeler is the wife of Defendant Carlos Wanzeler. For over twelve (12) years, Ms. Wanzeler and a small staff of employees have operated two small cleaning

Motion allowed. /s/ M Gorton, USDJ 6/12/14

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff

v.

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. CROSY and
FAITH R. SLOAN,

Defendants

and

TELEXFREE FINANCIAL, INC.,
TELEXELECTRIC, LLP and
TELEX MOBILE HOLDINGS, INC.

Relief Defendants

Case No. 14-cv-11858-NMG

ORDER GRANTING LIMITED RELIEF FROM ASSET FREEZE ORDER

The Court, acting pursuant to a motion filed on behalf of Katia Wanzeler, and with the assent of the Securities and Exchange Commission, hereby enters the following **ORDER:**

1. Effective immediately, St. Mary's Credit Union is authorized and directed to unfreeze the business checking accounts of K & C Cleaning (Account #20826020) and Cleaner Image U.S.A. (Account #20826012).

2. Henceforth, Katia Wanzeler is hereby authorized to serve as the sole signatory on the financial accounts of each of the above-named businesses. Ms. Wanzeler may continue a banking relationship at St. Mary's Credit Union, or may open accounts for the businesses at a different bank. In the event she elects to move to a different bank, she will so advise the Securities and Exchange Commission through her attorney.
3. The checking accounts opened or maintained shall be used only for the continued operation of the respective businesses.

SO ORDERED.

S/ NMGorton

Honorable Nathaniel M. Gorton
United States District Judge

Dated: June 12, ~~2012~~ 2014 at 12:45 ~~a.m.~~/p.m

4813-7172-6107, v. 1

UNITED STATES BANKRUPTCY COURT

DISTRICT OF MASSACHUSETTS

In re: TELEXFREE, LLC, Debtor.	Case No. 4:14-BK-40987 Chapter 11
WALDEMARA MARTIN AND LEANDRO VALENTIM – PUTATIVE CLAIMS REPRESENTATIVES AND THOSE SIMILARLY SITUATED, Plaintiffs, v. TELEXFREE, INC., f/k/a COMMON CENTS COMMUNICATIONS, INC. et al., Defendants.	Adv. No. 14-ap-04044-MSH

PLAINTIFF WALDEMARA MARTINS AFFIDAVIT IN SUPPORT OF MARTINS PLAINTIFFS RESPONSE TO DEFENDANT WANZELER'S MOTION FOR AN EXTENSION OF TIME TO ANSWER OR OTHERWISE RESPOND TO COMPLAINT

I Waldemara Martin under oath swear and depose the following:

1. I am the named Plaintiff and putative class representative in the above entitled action.

2. I oppose Defendant Wanzeler's request for an extension of time to respond to the complaint.

3. Wanzeler is a fugitive from justice. He is living it up at a sea side home while I and the other TelexFree promoters he stole from are back here suffering and trying to recover from the money he caused us to lose.

4. Based on information and belief, at least one TelexFree victim committed suicide and another died of a heart attack. One man borrowed over $28,000 and is paying back the loan at over 8% interest. His mother co signed. Many victims have lost their life savings. Most are out money.

5. Rather than stay and straighten everything out as best as he can, or face the music Wanzeler took off and is thumbing his nose at the American legal system. If he wants to be treated legitimately and take advantage of flexibility and benefits offered by our legal systems , he needs to be legitimate. I object to his having it both ways and to be given another opportunity to play games with us.

6. In addition to the Tel3xFree scam, Wanzeler has shown he is capable of playing games and wasting time and increasing costs. For example, he set up dummy corporations and

filed for bankruptcy in Nevada. The Nevada judge sent the case back to Massachusetts to save the victims money and for efficiency.

7. Wanzeler's last and usual place of abode was 373 Howard Street, Northborough, Massachusetts. Service was made at that address.

8. Wanzeler and others co-masterminded the scam that is the subject federal and state criminal and civil actions and ongoing investigations.

9. Wanzeler co-founded and is a principal, co-owner or officer of Defendants TelexFree, Inc., TelexFree, LLC, and TelexFree Financial Inc., TelexElectric LLLP, Telex Mobile Holdings, Inc., and Disc Matriz.

10. The sale of promoter memberships accounted for over 99 % of Telexfree's income. In sworn testimony, Wanzeler could not identify the number of individuals purchasing only a VoIP Program without also becoming a participant.

11. Wanzeler's pyramid scheme unlawfully bilked Plaintiffs and members of a Putative Class they seek to represent out of at least $300,000,000.00. According to TelexFree Trustee Darr at this Court's last hearing, assets recovered to date amount to a little over $100,250,000.00.

Based upon information and belief, Wanzeler has gone into hiding in Brazil at a location he has refused to disclose. Upon uncontested information and belief Wanzeler's decision to become a fugitive was his alone.

12. The New York Office of the United States Attorney has advised that Brazilian authorities refuse to return Carlos Wanzeler to face the fraud indictment in Massachusetts because the United States does not have an extradition treaty with Brazil.[1]

13. On May 9, 2014, the United States Department of Homeland Security filed criminal proceedings against Wanzeler and Merrill for conspiracy to commit wire fraud.

14. Upon uncontested information and belief, Wanzeler is in possession of funds withdrawn from TelexFree's coffers or that he otherwise obtained from the pyramid Ponzi scheme. According to his criminal defense counsel, Wanzeler has other funds in overseas accounts.

15. Upon uncontested information and belief, Wanzeler has significant funds in overseas banks and refuses to voluntarily tender it to United States authorities.

16. Upon uncontested information and belief, during a hearing before US District Court Judge Nathaniel Gorton Wanzeler's defense counsel confirmed that he has significant funds in overseas banks and refuses to tender it to United States authorities.

17. On April 15, 2014, the Enforcement Section of the Massachusetts Securities Division of the Office of the Secretary of the Commonwealth of Massachusetts commenced administrative proceedings against diverse entities. Dkt No. 2014-4.

18. On April 15, 2014, agents of the FBI and Department of Homeland Security raided TelexFree, Inc.'s office in Marlborough, Massachusetts. During that search federal

[1] http://www.nydailynews.com/news/national/wife-accused-billion-dollar-ponzi-schemer-fly-brazil-feds-article-1.1794070#ixzz35rA6j6AP

agents recovered $40 million worth of checks, including $2 million in checks written out to Katia Wanzeler.

19. On April 15, 2014, agents of the Department of Homeland Security caught defendant Joseph H. Craft after he attempted to flee the raid with about $38 million in treasury checks, and a laptop containing data that was the subject of the search warrant.

20. Upon uncontested information and belief, Defendant Craft Joseph H. Craft was hand-picked by Wanzeler to serve as Certified Public Accountant or Chief Financial Officer for Telexfree entities, and is named as Wanzeler's co conspirator in the pyramid Ponzi scheme based on his integral role and advise.

Signed this second day of July 2014 under the pains and penalties of perjury

Waldemara Martins

Waldemara Martins