



Department of Justice

United States Attorney Carmen M. Ortiz
District of Massachusetts

FOR IMMEDIATE RELEASE

July 23, 2014

www.justice.gov/usao/ma/news.html

 twitter.com/dmanews1

CONTACT: CHRISTINA DiIORIO-STERLING

Phone (617) 748-3356

usama.media@usdoj.gov

TELEXFREE FOUNDERS INDICTED ON CHARGES OF RUNNING A MASSIVE PYRAMID SCHEME

Boston - James M. Merrill and Carlos N. Wanzeler, principals of TelexFree, Incorporated, and related entities, were indicted today for wire fraud and conspiracy to commit wire fraud.

Merrill, 53, of Ashland, Mass., and Wanzeler, 45, of Northborough, Mass., were charged by a federal grand jury in a nine-count indictment filed in U.S. District Court in Worcester, Mass.

According to the indictment, TelexFree, Inc., and TelexFree LLC (collectively, “TelexFree”) provided “voice-over-internet-protocol” (“VOIP”) telephone services that allowed customers to use the Internet to make phone calls. The indictment alleges, however, that TelexFree actually operated as a pyramid scheme, in which its ongoing operations were supported, not by actually selling TelexFree’s VOIP product, but by bringing in a constant stream of new investor dollars. Between early 2012 and March 2014, TelexFree purported to aggressively market its VOIP service by recruiting thousands of “promoters” to post ads for the product on the Internet. Each promoter was required to “buy in” to TelexFree at a certain price, after which they were compensated by TelexFree, under a complex compensation structure, on a weekly basis so long as they posted ads for TelexFree’s VOIP service.

It is further alleged that over the course of the fraud TelexFree derived only a fraction of its revenue from sales of VOIP service and the vast majority of it from new people buying into the scheme, and so TelexFree was able to pay the returns it had promised to its existing promoters only by bringing in money from newly-recruited promoters.

The indictment includes eight charges of wire fraud, based on Merrill, in December 2013, wiring about \$10,000,000 in TelexFree funds to personal accounts belonging to him and Wanzeler. The indictment also specifies approximately 70 assets to be forfeited as proceeds of the alleged fraud scheme, or assets traceable to such proceeds, including approximately \$140,000,000 seized from TelexFree’s accounts and various real assets, such as homes, condominiums, cars and two boats.

The charging statute provides a sentence of no greater than 20 years in prison on each count. Actual sentences for federal crimes are typically less than the maximum penalties. Sentences are imposed by a federal district court judge based upon the U.S. Sentencing Guidelines and other statutory factors. Merrill was previously arrested on similar charges on May 9, 2014, and remains released on bail. A federal arrest warrant was issued today for Wanzeler, who is a fugitive.

United States Attorney Carmen M. Ortiz, Bruce M. Foucart, Special Agent in Charge of Homeland Security Investigations in Boston and Vincent B. Lisi, Special Agent in Charge of the Federal Bureau of Investigation, Boston Field Division, made the announcement today. The case is being prosecuted by Assistant U.S. Attorneys Cory Flashner and Andrew Lelling of Ortiz's Worcester Branch Office and Economic Crimes Unit, respectively. The United States Attorney's Office received valuable assistance from the Securities & Exchange Commission in the course of investigating this case.

If you believe you are a victim of the alleged fraud scheme involving TelexFree, please fill out the questionnaire at the link below, so your claim can be reviewed:

http://www.fbi.gov/stats-services/victim_assistance/seeking-victim-information/telexfree-inc.-case

The details contained in indictment are allegations. The defendants are presumed innocent until proven guilty beyond a reasonable doubt in a court of law.

###