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**\$1 Billion Cut-and-Paste Ponzi Scheme**

By JONNY BONNER

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PHOENIX (CN) - Internet phone company TelexFree ran a \$1 billion Ponzi scam based on "mindless spamming" by people it "ostensibly paid" to recruit new suckers, a member claims in a federal class action.

Lead plaintiff Rita Dos Santos, of Massachusetts, claims she lost \$350,000 to "TelexFree's pyramid scheme."



She sued TelexElectric and Telex Mobile Holdings on Wednesday, and a slew of banks, attorneys and others, including 13 top officers and promoters. Many of the individual defendants in the 244-page lawsuit are sued at their "last known address."

TelexFree Inc., TelexFree LLC and TelexFree Financial (of Massachusetts, Las Vegas and Florida) are not named as defendants because they are in bankruptcy.

Three founders and two more top executives, of Massachusetts, Brazil and Indiana, lead the individual defendants, followed by six "top level promoters," from Massachusetts, Georgia, Illinois, Staten Island and Indiana.

Dos Santos describes Telex as a typical, though worldwide, pyramid scheme. TelexElectric et al. sold "memberships" and paid "promoters" to place ads for a voice over Internet protocol (VoIP) product. But the only thing keeping the scheme alive was the new money roped in by the old "members," Dos Santos says.

She says TelexElectric changed its payment plan in March 2014, a month before it filed for bankruptcy. Until then, it did not require promoters to sell the VoIP product to be eligible for payments.

It worked this way, according to the complaint: TelexFree issued new recruits an "invoice." The recruits would pay off the invoice not to TelexFree, but to the old members who recruited them. "Those payments made from one participant (the recruited) to another (the recruiter) are collectively referred to herein as 'Direct Victim Payments.'"

The complaint continues: "Participants received nothing of value in return for making the Direct Victim Payments. Although ostensibly participants received access to a TelexFree user account, because TelexFree was running an illegal pyramid scheme, those accounts were worthless. Moreover, TelexFree, as a criminal enterprise, had no right to the monies paid as Direct Victim Payments."

Within 18 months, TelexElectric raised "as much as \$1 billion," Dos Santos says, by promising cash, bonuses, gratuities, royalties and dividends, merely for recruiting new members.

"Members were only required to engage in the activity of cutting and pasting spam advertisements, which were 'prepared by TelexFree,' onto 'Internet announcement sites,' and would receive 'remuneration for these announcements,'" according to the complaint.

"Furthermore, VoIP products distributed to members as remuneration for this mindless spamming activity could be redeemed with TelexFree for cash, resulting in cash remuneration."

Members who asked to quit were confronted with a process "clearly designed to entangle members in TelexFree's scheme and prevent members from withdrawing," Dos Santos says, which she calls a "classic hallmark" of a pyramid scam: "using coercive measures to prevent participant withdrawal from the scheme."

The defendant banks - at least six of them, including Bank of America, Wells Fargo, TD Bank and RSB Citizens Bank - did not "timely or sufficiently" stop servicing members' accounts, shut them down or terminate banking relationships when they learned of the scheme, according to the lawsuit.

Other companies of various descriptions are listed alongside the banks, as "financial services providers," "professional services providers" and "accountant defendants." These include PricewaterhouseCoopers, Craft Financial Solutions, four attorneys offices in Michigan, Global Payroll Gateway Inc., ProPay.com, and others.

"Each of the financial services defendants was a substantial and integral cog in TelexFree's unlawful United States pyramid scheme, and, without that assistance, the scheme would not have been able to get off the ground, develop, maintain or thrive," the lawsuit states. "Each financial services defendant was motivated by substantial profits and other interests at the local and national level gained from its relationship with TelexFree and other defendants, as well as a desire to maintain their personal and lucrative relationships with the multilevel marketing industry as a whole."

Dos Santos says she invested \$350,000 in the program, and never got Dime One out of it. She claims that in 2013, Bank of America allegedly had exchanges with TelexFree about terminating their relationship and discontinuing service of the accounts, "but it did not do so until much later."

The FBI raided TelexFree offices on April 15, 2014, "shutting down its operation, seizing records and other evidentiary items," the complaint states. Three weeks later the Department of Homeland Security "filed criminal proceedings against two of TelexFree's founders, [defendants Carlos] Wanzeler and [James] Merrill and, for conspiracy to commit wire fraud," according to the lawsuit.

The SEC announced separate, related civil fraud charges last year, accusing multiple companies under the TelexFree umbrella and their officers and promoters, of orchestrating the global scheme, which targeted Dominican and Brazilian immigrants.

The three founder defendants, Merrill, Wanzeler and Carlos Costa formed and registered Ympactus Comercial Ltda under the laws of Brazil, and operated out of offices in Marlborough, Mass., then launched TelexFree in the same space.

"TelexFree derived only a fraction of its revenue from sales of VoIP service - less than 1 percent of TelexFree's hundreds of millions of dollars in revenue over the last two years," the FBI said in a statement after its raid. "The overwhelming majority of its revenue - the other roughly 99 percent - came from new people buying into the scheme. TelexFree was allegedly only able to pay the returns it had promised to its existing promoters by bringing in money from newly recruited promoters."

None of the parties could be reached for comment Thursday.

Dos Santos seeks class status certification and millions of dollars in punitive damages for violations of Massachusetts general laws, unjust enrichment, civil conspiracy, professional negligence, negligent misrepresentation, fraud, and aiding and abetting.

She is represented by Steven German with Adelman German, of Scottsdale.

Here are the defendants: TelexElectric LLLP; Telex Mobile Holdings Inc.; James M. Merrill; Carlos N. Wanzeler; Steven M. Labriola; Joseph H. Craft aka Joe H. Craft; Craft Financial Solutions LLC; Ann Genet; Carlos Costa; Katia Wanzeler; Sanderley Rodrigues De Vasconcelos; Santiago De La Rosa; Randy N. Crosby; Faith R. Sloan; Daniil Shoyfer; Scott Miller; Gerald P. Nehra dba Law Offices of Nehra and Waak; Gerald P. Nehra Attorney at Law PLLC; Richard W. Waak dba Law Offices of Nehra and Waak; Richard W. Waak Attorney at Law PLLC; Opt3 Solutions Inc.; Jason A. Borromei; Price Waterhouse Coopers LLP; Bank of America N.A.; TD Bank N.A.; RSB Citizens N.A.; Fidelity Cooperative Bank dba Fidelity Bank; John F. Merrill; Wells Fargo Bank N.A.; Synovus Bank; Global Payroll Gateway Inc.; International Payout Systems Inc.; Propay Inc. dba Propay.Com; Base Commerce LLC dba

Phoenix Payments; John Hughes; Vantage Payments LLC; Dustin Sparman; Allied Wallet Ltd.; and Doe promoters, licensed professionals, payment processing services and paralegals.



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