

Retail

Consumer Fraud

United States v. James Merrill and Carlos Wanzeler

2016

Department of Justice, U.S. Attorney's Office
District of Massachusetts March 22, 2017

Former President of Telexfree Sentenced for Billion Dollar Pyramid Scheme

BOSTON – The former President of Telexfree, Inc., a global pyramid scheme disguised as an internet telecom company, was sentenced today in U.S. District Court in Worcester.

James Merrill, 55, of Ashland, was sentenced by U.S. District Court Judge Timothy S. Hillman to six years in prison and three years of supervised release. In October 2016, Merrill pleaded guilty to one count of wire fraud conspiracy and eight counts of wire fraud. He also agreed to forfeit approximately \$140 million and other assets.

“Despite knowing that Telexfree was a pyramid scheme, Mr. Merrill profited for years at the expense of the hard-working individuals who invested in the fraudulent company,” said Acting U.S. Attorney William D. Weinreb. “For the hundreds of thousands of investors, here and around the world, who were taken in by the lies promoted by Mr. Merrill and Telexfree, today’s sentence provides a measure of justice. Mr. Merrill’s greed damaged the livelihoods of thousands of people who were simply struggling to make ends meet.”

“While the harm and damage James Merrill caused by stealing more than \$3 billion from innocent investors can never be repaired, his victims in more than 240 countries around the world can take some small measure of satisfaction that he is now looking at six years in federal prison and a substantial forfeiture as repayment for his crimes.” said Matthew Etre, Special Agent in Charge of Homeland Security Investigations in Boston. “HSI special agents will continue to aggressively investigate those who seek to profit by taking advantage of others.” Between February 2012 and April 2014, Merrill was the President of TelexFree, Inc., which sold a “voice-over-internet-protocol” (VOIP) telephone service, similar to Skype, for which customers could sign up on a website maintained by TelexFree. TelexFree, however, was a pyramid scheme; all of the money TelexFree paid out came, not from sales of its product, but from new participants paying TelexFree to sign up as “promoters” for the company.

TelexFree’s website prominently featured Merrill as the leader of the company and as an experienced businessman in the telecom field. As the website advertised at various times, participants paid \$1,425 or \$339 to sign up with TelexFree, after which they would be paid \$100 per week or \$20 per week to post classified ads every day on the internet. The company couched those payments in terms of “buying back” unused VOIP packages the participants were unable to sell, but the reality was that participants were guaranteed an annual return of over 200% on their money without having to sell anything. Among other things, emails showed Merrill’s awareness that the ad-posting was intended only to ensure that people visited TelexFree’s web site as opposed to generating actual retail sale of the VOIP product. Participants spent minutes a day

cutting and pasting ads into various classified ad sites provided by TelexFree, which were already saturated with thousands of ads posted by earlier participants.

Participants were also given substantial financial incentives to recruit others to join the scheme. To receive bonuses for recruiting others, in theory each participant needed to have one VOIP customer. But in reality, participants met this requirement simply by buying the product themselves and, in 97% of instances, never using it. In this way, TelexFree created the illusion that it had hundreds of thousands of legitimate VOIP customers. On paper the company sold about 12.4 million VOIP plans, but in reality it had a tiny number of legitimate customers, an even smaller number of which had actually paid money to TelexFree for the service. Overall, the nearly 2 million who participated in TelexFree made 96% of their compensation, not from selling the company's VOIP service, but from ad-posting and recruiting others to join.

TelexFree derived only a fraction of its total revenue in a two-year period from sales of VOIP service – approximately 2%. The remaining 98% came from new people buying into the scheme. TelexFree could only pay the returns it had promised to its existing promoters by bringing in money from newly-recruited promoters.

Beginning in late 2012, involvement in TelexFree spread rapidly, and by April 2014, well over a million people worldwide had signed up with the company. This included over 20,000 people in Worcester, Mass. alone, and thousands more in Boston, Framingham, Chelsea and other communities statewide. Meanwhile, beginning in 2013, Merrill received increasingly frequent warnings that the company was a pyramid scheme. Beginning in August 2013, Merrill began to take steps to change how the company did business, but Merrill never alerted the public, even though over a million people signed up for TelexFree between that month and TelexFree's collapse.

In December 2013, Merrill wired himself and two co-conspirators a total of \$10 million from TelexFree accounts. On April 14, 2014, Telexfree filed for bankruptcy, at which point it owed approximately \$6 billion to its participants, while having only about \$120 million on hand (about 2% of what it owed). At that point, approximately 1,855,000 participants worldwide lost money in the scheme, with total losses of about \$3,045,000,000. Overall, these victims came primarily from the United States (all 50 states), Brazil, China, Portugal, Peru, other Central and South American nations, Italy, and Russia, with smaller victim populations in dozens of other countries.