

AFFIDAVIT OF PAUL MELICAN IN SUPPORT OF
A MATERIAL WITNESS ARREST WARRANT

I, Special Agent Paul Melican, being duly sworn, state:

Introduction

1. I am an investigative or law enforcement officer of the United States within the meaning of 18 U.S.C. § 2510(7), in that I am empowered by law to conduct investigations of, and to make arrests for, offenses enumerated in 18 U.S.C. § 2516.

2. I have been a Special Agent with Homeland Security Investigations (HSI) since the establishment of the Department of Homeland Security in 2003. I have been employed as a federal law enforcement officer since April 1996. I am currently assigned to the High Intensity Drug Trafficking Area (HIDTA) Financial Task Force in Boston, MA. Since being assigned to the HIDTA Financial Task Force in December 2007, I have attended HSI's Asset Forfeiture and Financial Investigations Training Program, the United States Department of Justice, Asset Forfeiture and Money Laundering Section's Financial Investigation Seminar, the Federal Law Enforcement Training Center's Financial Forensic Techniques Training Program, and the United States Department of the Treasury, Treasury Executive Office for Asset Forfeiture's Ponzi Scheme Investigations Seminar. I have conducted and participated in financial investigations relating to money laundering in violation of Title 18, United States Code ("USC") Section 1956, and bulk cash smuggling in violation of Title 31, USC 5332. Through my training and experience, I have become familiar with the manner in which criminals and criminal organizations attempt to launder proceeds of unlawful activity.

3. I am currently conducting an investigation concerning the suspected wire fraud, securities fraud, and money laundering activities of Carlos Wanzeler and James Merrill. Carlos Wanzeler and James Merrill own and operate a company known as TelexFree which ostensibly

provides voice-over-internet-protocol (VoIP) telephone services, but which this investigation has determined to be a financial pyramid scheme.

4. As an agent assigned to this matter, I have personally participated in many aspects of the investigation described below. I am also familiar with the facts and circumstances of the investigation through discussions with other HSI personnel and others, and from my review of business records, reports and other materials relating to the investigation.

5. I submit this affidavit for the limited purpose of establishing probable cause to support the issuing of a material witness warrant for Katia Wanzeler (DOB XX/XX/1965) pursuant to Title 18, United States Code, § 3144.

6. The facts in this affidavit are drawn from my review of documents and data obtained during the investigation, my training and experience, and information obtained from other agents. This affidavit is only intended to show that there is sufficient probable cause for the requested warrants. It does not contain all facts relevant to this matter.

Background

I. Overview

7. TelexFree, Inc., and TelexFree LLC (collectively, “TelexFree”) ostensibly provide “voice-over-internet-protocol” (“VOIP”) telephone services, for which customers can sign up via a Web site maintained by TelexFree. Based on our investigation, however, TelexFree is actually a pyramid scheme.

8. Based on my training and experience, a pyramid scheme typically involves a seemingly legitimate business that purports to sell a product but actually derives the bulk of its revenue not from selling the product to third parties but from recruiting new participants to pay into the system. The hallmark of these schemes is typically a promise of substantial returns in a

short period of time for doing little beyond paying into the organization and convincing others to do the same.

9. People operating pyramid schemes often go to great lengths to layer the program with jargon, procedural complexities, a formalized hierarchy of participation, and other trappings that create the appearance of a legitimate company pursuing a (legal) multi-level marketing program. But, as in “Ponzi”-type schemes, the organizers simply take in money from newly-invested participants and use those funds to pay the returns promised to earlier participants.

10. Again like Ponzi schemes, pyramid schemes are ultimately unsustainable because the returns promised to an ever-growing number of participants must be paid using funds deposited by a necessarily finite pool of new participants. At some point the scheme must become too big, that is, it must run out of new participants depositing sufficient cash to cover commitments to earlier participants and, because the underlying product is not in fact profitable, most of the scheme’s participants lose their money.

11. In this case, between about January 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 on the Internet. What TelexFree failed to disclose, however, was that the VOIP service was a front, and that the ad-posting requirements were a meaningless exercise, in which promoters cut and paste ads into various classified ad sites provided by TelexFree and already saturated with ads posted by other promoters.

12. In fact, as TelexFree's bank records and "back office" business data attest, it derived only a fraction of its revenue from sales of VOIP service – about 1% of TelexFree's hundreds of millions of dollars in revenue over the last two years. The overwhelming majority of its revenue came from new people buying into the scheme. In fact, TelexFree was only able to pay the returns it had promised to its existing promoters by bringing in money from newly-recruited promoters.

13. In 2013, the Massachusetts Securities Division ("MSD") began investigating TelexFree, including serving TelexFree with demands for various kinds of information about its operations. On or about March 9, 2014, TelexFree announced changes to its compensation system that appear to have been prompted at least in part by the MSD investigation. (Under the prior system, discussed further below, TelexFree promoters could invest in the company and make money without selling any actual product.) In video clips posted on YouTube, a TelexFree senior executive admitted to TelexFree promoters that the changes were necessary "to come into compliance." Soon after the changes were announced, promoters began protesting at TelexFree's Marlborough, Massachusetts, headquarters because the new system required them to actually sell TelexFree's VOIP product and, as one promoter told a news reporter, "It's almost impossible to sell."

14. On April 14, 2014, the TelexFree scheme collapsed: Facing massive liabilities to its existing promoters, TelexFree and its related entities filed for voluntary Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the District of Nevada (No. 14-12524-ABL). In a declaration filed in the bankruptcy proceeding on behalf of the company, the company said, among other things, that it changed its compensation plan in March 2014 "[b]ecause questions were raised" about the prior plan. TelexFree also admitted that it was

entering bankruptcy because, after changing the compensation plan, “These discretionary payments [that is, payouts to current investors] quickly became a substantial drain on the Company’s liquidity.” In other words, once new investor dollars stopped coming in, TelexFree was unable to pay its current investors.

15. The day of the bankruptcy filing, TelexFree’s web site, which all TelexFree promoters use to manage their accounts and transfer funds paid to them by TelexFree, became inoperative. The company posted a notice on the site telling its investors that the situation was temporary and that TelexFree looked forward to reorganizing and continuing to do business.

16. The next day, April 15, 2014, federal agents executed three search warrants, including at TelexFree’s headquarters in Marlborough, Massachusetts. During that search, a law enforcement officer intercepted TelexFree’s acting Chief Financial Officer (“CFO”) trying to leave the premises with a laptop and a bag. Initially, the acting CFO said he was a consultant for TelexFree and was retrieving personal items. In the bag, however, law enforcement officers found ten Wells Fargo Bank cashiers’ checks totaling \$37,948,296. Eight of the checks were dated April 11, 2014 (the Friday before the April 14, 2014, bankruptcy filing) and were remitted¹ to Merrill. Of these, five checks were made out to TelexFree LLC, in the total amount of \$25,548,809, while one check was made out to Wanzeler’s wife, Katia Wanzeler, in the amount of \$2,000,635. One check, dated April 3, 2014, and remitted to Wanzeler himself, was made out to TelexFree Dominicana SRL,² in the amount of \$10,398,000.

¹ That is, Merrill was identified on the checks themselves as the remitter and purchaser of each check.

² TelexFree Dominicana SRL appears to be an entity separately established in the Dominican Republic with business operations similar to TelexFree in the United States.

17. Law enforcement officers seized the checks. Agents later determined that James Merrill and Katia Wanzeler had traveled to Connecticut on or about April 11, 2014, to pick up the checks (except the check made out to TelexFree Dominicana SRL, which had been picked up by Wanzeler earlier in April) from a Wells Fargo branch in Connecticut.

II. **Materiality of Katia Wanzeler's Testimony**

18. During the scheme, significant sums of money were moved from TelexFree bank accounts into a Wells Fargo account in the name of Katia Wanzeler. On February 28, 2014, two transfers from TelexFree account XXXX8498 at Wells Fargo were initiated into Katia Wanzeler's Wells Fargo account XXXX3716, one in the amount of \$1,000,000 and another in the amount of \$2,500,000. Subsequently, \$1,500,000 of those funds were transferred into a Wells Fargo brokerage account in the name Katia Wanzeler.

19. On April 17, 2014, during the execution of a search warrant at _____, Northborough, MA, the home which Katia Wanzeler shared with Carlos Wanzeler, Katia Wanzeler informed agents that her husband had been staying in a hotel "on the advice of counsel." In reality Carlos Wanzeler had fled the country after driving into Canada and then flying to Brazil: Carlos Wanzeler's travel is as follows;

- a. On April 15, 2014 (the same day a search warrant was executed at TelexFree offices) at approximately 11:00 PM Carlos Wanzeler and his daughter Lyvia Wanzeler drove to the US/Canada border crossing at Lacolle, PQ (Provence de Quebec) in a BMW bearing MA plate _____ and registered to Acceris Realty Estate LLC, _____. Katia Wanzeler is the registered agent for the company.

b. On April 17, 2014 (the same day a search warrant was executed at Wanzeler's home) Carlos Wanzeler and Lyvia Wanzeler boarded Air Canada flight number 90 From Toronto to Sao Paulo, Brazil. Carlos Wanzeler entered Brazil using his Brazilian passport.

c. On April 26, 2014, Lyvia Wanzeler returned to the US on a round trip ticket booked to return to Brazil on June 4, 2014. The flight was booked using Carlos Wanzeler's frequent flyer miles account XXXXXXXX832. On May 1, 2014, Lyvia Wanzeler left Boston and flew to Italy.

20. On Friday April 11, 2014, Katia Wanzeler traveled with James Merrill to retrieve over \$27 million dollars in cashiers checks from a Wells Fargo bank in Connecticut. The majority of the checks were payable to TelexFree entities but one of the checks, in the amount of \$2,000,634.76, was payable to "Katia B Wanzeler".

21. On May 13, 2014, someone in Brazil bought her one-way ticket, in cash.

Conclusion

22. Based on the foregoing, I believe there is probable cause to conclude that Katia B. Wanzeler is a material witness to the investigation being conducted by the grand jury regarding TelexFree and that it is impracticable to secure Mrs. Wanzeler's attendance at grand jury by subpoena. As such, I request the issuance of a warrant for the arrest of Katia B. Wanzeler, pursuant to Title 18 United States Code, Section 3144.

23. Having signed this affidavit under oath as to all assertions and allegations contained herein, its contents are true and correct to the best of my knowledge, information and belief.



PAUL J. MELICAN
Special Agent
Homeland Security Investigations

Sworn and subscribed to before me this 14th day of May 2014, at Worcester, Massachusetts.



HON. DAVID H. HENNESSY
UNITED STATES MAGISTRATE JUDGE
DISTRICT OF MASSACHUSETTS

