

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF:)

TELEXFREE, INC.,)
TELEXFREE, LLC,)
JAMES M. MERRILL,)
CARLOS N. WANZELER,)
JOSEPH H. CRAFT,)
STEVEN M. LABRIOLA, and)
FAITH SLOAN.)

File No. 1400196

AMENDED ORDER OF PROHIBITION

TO THE RESPONDENTS:

TelexFree, Inc.
225 Cedar Hill Street, Suite 200
Marlborough, MA 01752

TelexFree, LLC
225 Cedar Hill Street, Suite 200
Marlborough, MA 01752

Incorp Services Inc.
In Care of: TelexFree, LLC
901 S. 2nd Street, Suite 201
Springfield, IL 62704

James M. Merrill
225 Cedar Hill Street, Suite 200
Marlborough, MA 01752

Carlos N. Wanzeler
225 Cedar Hill Street, Suite 200
Marlborough, MA 01752

Joseph H. Craft
225 Cedar Hill Street, Suite 200
Marlborough, MA 01752

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Steven M. Labriola
225 Cedar Hill Street, Suite 200
Marlborough, MA 01752

Faith Sloan
4001 Cambridge Drive
Country Club Hills, IL 60478

WHEREAS, a Temporary Order of Prohibition was issued by the Illinois Secretary of State on April 18, 2014, temporarily prohibiting the Respondents from offering or selling securities in or from the State of Illinois for a maximum period of ninety (90) days.

WHEREAS, pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5/1 *et. seq.*] (the "Act"), the failure to request a hearing within thirty (30) calendar days of the entry of the Temporary Order of Prohibition shall constitute an admission of any alleged facts therein and constitute a sufficient basis to make the Temporary Order final.

WHEREAS, Respondents TelexFree, Inc., TelexFree, LLC, James M. Merrill, Carlos N. Wanzeler, Joseph H. Craft, Steven M. Labriola, and Faith Sloan each have failed to request a hearing on the matters contained in the Temporary Order of Prohibition within thirty (30) calendar days of the entry of said Temporary Order and the Respondents are hereby deemed to have admitted the facts alleged in the said Temporary Order.

FACTS COMMON TO ALL COUNTS

WHEREAS, the Secretary of State, has adopted the Findings of Fact contained in the said Temporary Order as the Secretary of State's Findings of Fact which are as follows:

1. Respondent TelexFree, Inc. is a Massachusetts corporation with its principal place of business located at 225 Cedar Hill Street, Suite 200, Marlborough, MA 01752. Prior to a name change in February 2012, it was known as Common Cents Communications, Inc. which was incorporated by Respondents James Merrill, Carlos Wanzeler, and Steven Labriola in 2002.
2. Respondent TelexFree, LLC is a Nevada limited liability company and has been registered with the State of Illinois since February 26, 2014, as a foreign LLC with a principal place of business located at 225 Cedar Hill Street, Suite 200, Marlborough, MA 01752. It was incorporated by Respondents James Merrill and Carlos Wanzeler in July 2012.
3. Respondent James M. Merrill ("JM") is the co-owner of Respondents TelexFree, Inc. and TelexFree, LLC and represents himself to be the President of both entities.
4. Respondent Carlos N. Wanzeler ("CW") is the co-owner of Respondents TelexFree, Inc. and TelexFree, LLC and represents himself to be the treasurer of Respondent TelexFree, Inc.

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5. Respondent Joseph H. Craft ("JC") represents himself to be the chief financial officer of Respondents TelexFree, Inc. and TelexFree, LLC.
6. Respondent Steven M. Labriola ("SL") is a co-founder of Respondent TelexFree, Inc. and represents himself to be the international sales director of Respondents TelexFree, Inc. and TelexFree, LLC.
7. Respondent Faith Sloan is an Illinois resident with the last known address of 4001 Cambridge Drive, Country Club Hills, IL 60478, and is one of the most successful promoters of Respondent TelexFree. She 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."
8. On April 15, 2014, the Commonwealth of Massachusetts issued a Cease and Desist order against Respondent TelexFree, Inc. for operating a pyramid and ponzi scheme arising from facts alleged herein.
9. On April 15, 2014, the United States Securities and Exchange Commission filed a complaint against the above referenced Respondents for operating a pyramid and ponzi scheme arising from facts alleged herein.

COUNT I

FRAUD IN THE OFFER AND SALE OF SECURITIES

10. That beginning in November 2012, a Respondent TelexFree set up a website whereby TelexFree would provide its "99TelexFree" Voice over Internet Protocol ("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, MA.
11. However, Respondent TelexFree is also in the business of recruiting new members and paying them to promote the company by placing internet advertisements and recruiting more members.
12. In return for membership fees, Respondent TelexFree promises significant returns if promoters place ads for its VoIP product on the internet and recruit others to do the same.
13. TelexFree relies on its company website and on websites maintained by its leading promoters.
14. Promoters, like Respondent Faith Sloan, maintains one such website which promote; "Telecommunications + Marketing = Massive Income," and "Place ads, Get Paid." The website "www.telexfreepower.com" also includes a copy written picture, from another website, of an exotic sports car with the statement "I made \$200 in 7 days working 3

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minutes a day" inferring that one would be able to afford the exotic sports car by becoming a member of TelexFree. The Website does not list any references as to the accuracy of any statements made on the website. Respondent Faith Sloan held a webinar on June 12, 2013 called "TelexFree Faith Sloan Global Power Team Webinar."

15. The basis for the scheme and how promoters received compensation was to recruit as many members as they could by selling membership interests into the company. There were two options to choose from:
 - 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.
15. Promoters of Respondent TelexFree, like Respondent Faith Sloan, would receive bonuses based on how many AdCentral and AdCentral Family packages they sold to new members. Like a true pyramid scheme, the more packages that promoters sold, the higher the bonus would be.
16. On March 9, 2014, Respondent TelexFree made changes to its compensation plan that made it 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 had 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. This meant that promoters actually had to sell the TelexFree's VoIP product and not just get compensated for recruiting new members.
17. The rule change generated a storm of protests from AdCentral members. On April 1, 2014, dozens of members descended on the company's office in Marlborough to complain.

18. On April 14, 2014, Respondents TelexFree Inc. and TelexFree, LLC filed for bankruptcy in Nevada under Chapter 11. The two companies claimed to have liabilities of as much as \$600 million but assets of no more than \$120 million. Respondents stated that, in the five weeks after the March 9 rule change, promoters submitted claims for \$174 million, primarily for AdCentral ad placements. The Respondents 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 Respondents cannot meet their obligations. Since the VoIP sales have not generated enough revenue to honor their promises to AdCentral promoters, the Respondents seek authority to reject all existing AdCentral contracts.
19. The AdCentral programs offered and sold by Respondents as referenced above is set up to be a classic pyramid scheme which works a fraud and deceit upon the purchaser.
20. Section 12.F of the Act states *inter alia* that it shall be a violation of the provisions of the Act for any person to engage in any transaction, practice or course of business in connection with the sale of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof.
21. By virtue of the Foregoing, Respondents each violated Section 12.F of the Illinois Securities Law of 1953.

COUNT II

OFFER AND SALE OF UNREGISTERED SECURITIES

22. The two AdCentral programs offered by Respondents constitutes an "investment contract" and therefore is the offer or sale of a security as those terms are defined in Sections 2.1, 2.5, and 2.5a of the Illinois Securities Law of 1953 [815 ILCS 5/1 *et. seq.*] (the "Act").
23. Respondents have not filed an application for the registration of, or exemption for, the securities offered by Respondent TelexFree since November 2012, with the State of Illinois in accordance with Sections 5, 6 and 7 of the Act.
24. Section 12.B of the Act states *inter alia* that it shall be a violation of the provisions of the Act to deliver to a purchaser any security required to be registered under Section 5, Section 6 or Section 7 hereof unless accompanied or preceded by a prospectus that meets the pertinent subsection of Section 5 or of Section 6 or of Section 7.
25. By virtue of the Foregoing, Respondents have each violated Section 12.B of the Illinois Securities Law of 1953.

COUNT III

ACTING AS AN UNREGISTERED DEALER, SALESPERSON, AND INVESTMENT ADVISER

26. Section 8.A of the Act states *inter alia* that every dealer, salesperson, investment adviser, and investment adviser representative shall be registered with the State as such.
27. Respondent TelexFree has never registered in Illinois as a broker-dealer, a salesperson, investment adviser or investment adviser representative or in any other capacity in the securities business in the State of Illinois.
28. Respondent James Merrill has never registered in Illinois as a broker-dealer, a salesperson, investment adviser or investment adviser representative or in any other capacity in the securities business in the State of Illinois.
29. Respondent Carlos Wanzeler has never registered in Illinois as a broker-dealer, a salesperson, investment adviser or investment adviser representative or in any other capacity in the securities business in the State of Illinois.
30. Respondent Joseph Craft has never registered in Illinois as a broker-dealer, a salesperson, investment adviser or investment adviser representative or in any other capacity in the securities business in the State of Illinois.
31. Respondent Steven Labriola has never registered in Illinois as a broker-dealer, a salesperson, investment adviser or investment adviser representative or in any other capacity in the securities business in the State of Illinois.
32. Respondent Faith Sloan has never registered in Illinois as a broker-dealer, a salesperson, investment adviser or investment adviser representative or in any other capacity in the securities business in the State of Illinois.
33. On information and belief, Respondents *et al* have sold securities to Illinois investors through the company's website and promoters located in the State of Illinois.
34. On information and belief, Respondent Faith Sloan, acting in her capacity as a promoter in TelexFree, and has sold investments in Respondent TelexFree to Illinois residents in person and through her website referenced above.
35. Section 12.A of the Act states *inter alia* that it shall be a violation of the provisions of this Act for any person to offer or sell any security except in accordance with the provisions of this Act.
36. Section 12.C of the Act states *inter alia* that it shall be a violation of the provisions of this Act for any person to act as a dealer, salesperson, investment adviser, or investment

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adviser representative, unless registered as such, where such registration is required, under the provisions of the Act.

37. By virtue of the Foregoing, Respondents each violated Sections 12.A and 12.C of the Illinois Securities Law of 1953.

NOW IT IS HEREBY ORDERED THAT:

Respondent **TELEXFREE, INC.** and any representative or employee, is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois effective June 9, 2014.

Respondent **TELEXFREE, LLC** and any representative or employee, is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois effective June 9, 2014.

Respondent **JAMES M. MERRILL** is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois effective June 9, 2014.

Respondent **CARLOS N. WANZELER** is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois effective June 9, 2014.

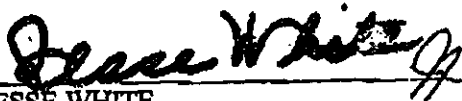
Respondent **JOSEPH H. CRAFT** is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois effective June 9, 2014.

Respondent **STEVEN M. LABRIOLA** is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois effective June 9, 2014.

Respondent **FAITH SLOAN** is **PROHIBITED** from the offer or sale of securities in or from the State of Illinois effective June 9, 2014.

Delivery of this Order or any subsequent notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 9th day of June, 2014.



JESSE WHITE
Secretary of State
State of Illinois

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Attorney for the Secretary of State:
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NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.D of the Act. Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of the Order shall be guilty of a Class 4 Felony.

This is a final order subject to administrative review pursuant to the Administrative Review Law, 735 ILCS 5/3 -101 *et seq.* and the Rules and Regulations of the Act (14 111. Admin. Code, Ch. I, Sec. 130.1123). Any action for judicial review must be commenced within thirty-five (35) days from the date a copy of this Order is served upon the party seeking review.