

EXHIBIT 1

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I-THE PARTIES AND MEMBERSHIP

1.1 THE CONTRACTOR

TelexFREE, LLC, 4705 S. Durango Dr. #100 Las Vegas, Nevada

1.2 THE CONTRACTING PARTY
A natural person who has voluntarily filled out his particulars, including their Tax ID , registering his agreement with all these clauses after declaring that he understands the entire content of this instrument through his acceptance over the internet, at the website www.telexfree.com, by signing this contract, hereinafter referred to as the Member.

1.3 MEMBERSHIP

1.3.1 The parties identified above confirm that they are fully aware of the content of this instrument and that, pursuant to the best form of the law, by their own free and spontaneous will, to express their agreement they do sign this advertising and communications service subscription agreement, with the following clauses and conditions.
II-PURPOSE

2.1 ACTIVITIES-AIM OF CONTRACTOR

2.1.1 The CONTRACTOR, doing business as TELEXFREE, is engaged in activities of business promotion, brokerage and business agent services, developing a network of promoters, providing them with training, support materials, oversight, follow-up and support, and also remunerating them based on the logical structure of binary multilevel marketing on behalf of TELEXFREE INC, pursuant to a specific contract between them.

2.1.2 TELEXFREE INC, from its headquarters in , Marlboro Massachusetts (U.S.), on the basis of an operating contract between the latter and the CONTRACTOR (YMPACTUS), has as its primary activity VOIP telephony, using its equipment installed at its headquarters in Massachusetts, where it makes the necessary connections for these calls; it also provides virtual media, through the website www.telexfree.com to associates and to the PROMOTERS that YMPACTUS/TELEXFREE coordinates and controls, including the respective publicity channels.

2.2 PURPOSE OF THIS CONTRACT

2.2.1 Synthesis of the legal relationship

The user, by accessing the website of TELEXFREE.COM can become a member through payment of the respective fee, which will provide access to the TelexFREE Multilevel Marketing network for the period of one year, without extension or renewal. At this stage, the member is called a PARTNER. The PARTNER will have the right to acquire, at an exclusive discount, products that

are offered on the website www.telexfree.com, with the principal VOIP telephony accounts called 99TELEXFREE. The PARTNER, upon acquiring them in the form of a kit (ADCENTRAL or FAMILY kit) assumes the title of PROMOTER and, as such, receives a space on the site www.telexfree.com to promote the products/services that he has acquired. He also receives training and access to materials also made available on the TELEXFREE website so that he can undertake to promote the latter and avail himself of the opportunity to be a PARTNER and PROMOTER to others in his circle of relationships. All activities are performed by the PARTNER/PROMOTER without any employment relationship, and they are able individually to manage the team and the resources it seeks to make available for such purpose, of their own free will. For the promotion of products/services he will receive a bonus in direct proportion to his results, based on the levels explained in a separate section in these GENERAL REGULATIONS. He must obey all the clauses of these GENERAL REGULATIONS so that the name of TELEXFREE and the juridical persons associated with it remain unblemished.

2.2.2 scope of services

2.2.2.1 - Upon becoming a member, the natural person in question can acquire the kit of VOIP accounts. In doing so, he shall assume the title of PROMOTER and, at this stage, he is to be provided with a channel for virtual broadcasting - the website www.telexfree.com - so that he can post his announcements. If he wishes to post them daily, and manages to do so without interruption, he shall receive remuneration for each seven-day cycle, considering that, in addition to promoting the sale of the kits of products/services that he has acquired, he is also promoting the TELEXFREE brand. The form of remuneration is explained in a separate section of these GENERAL REGULATIONS

2.2.2.2 - while this contract is in force, the PROMOTER shall have unlimited access to the content of the tools intended for his use, as long as they are used in a manner that is in keeping with the TERMS OF USE AND THE PRIVACY POLICY available at the site of the advertisers and the CONTRACTOR, TELEXFREE.

2.2.2.3 - Access to virtual tools shall only be given to promoters who have fulfilled all the essential requirements, a process also referred to as 'qualification,' which is discussed below.

2.2.3 Limits of the obligations of TELEXFREE

2.2.3.1 - The supplying of printed material such as calling cards, pamphlets, folders or even panels, banners or variations thereof for advertising are not included in the services and materials supplied by TELEXFREE or its advertisers, and neither is underwriting provided for any meetings that PROMOTERS, individually or in groups, may organize.

2.2.3.2 - The supplying of the materials indicated above can, however, be arranged as a matter of generosity by TELEXFREE, the advertisers or any related entity, which shall not imply a binding link or the acquisition of a right. It may also provide them through reimbursement of the respective cost for all promoters, for optimization of scale, for cases in which there is an express prior agreement in writing between the parties to this effect.

2.3 SUPPORT SERVICES AND LIABILITY OF TELEXFREE

2.3.1 - THE PROMOTER shall have everything necessary so that he can commence and undertake his activities in the MULTILEVEL MARKETING system, and will be provided with oversight of the results obtained in the respective system where he is operating.

2.3.2 However, in the event of failures of public utilities to supply electricity that overwhelm TELEXFREE's own capacity to keep the energy grid for its systems up and running, and moreover, in the event of an interruption of internet services or the effects of cataclysmic events, inasmuch as *force majeure* or acts of God are involved, TELEXFREE assumes no liability for solving the problem of resuming the operation of the site and the services associated with it.

2.3.2.1 In such cases, PROMOTERS must await the return to normality of public services to recommence their activities.

2.3.2.2 For as long as situations resulting from acts of God and *force majeure* may persist that prevent the TELEXFREE site from being made available (when the site is off the air) the PROMOTERS shall not incur any loss for failure to post daily advertisements. This exception, however, does not apply in cases where a parallel situation occurs on the premises of the PROMOTER, unless the fact is commonly known or proven by a document issued by the service provider, covering all of the 24 hours in the period when the activity (posting of the advertisement) is supposed to take place.

2.3.2.3 Schedules for the posting of ads or for any operation that uses the TELEXFREE system shall be those of its servers in Boston (Eastern Time Zone).

2.3.3 - THE PROMOTER does not have any liability for the services and/or products of the ADVERTISERS, since such liability is assumed directly by the latter.

2.4 RELATIONSHIP REGIMEN

2.4.1 -PROMOTERS do not have an employment relationship, inasmuch as their working regimen is autonomous, free of any imposition of routines, goals or regularity, and there is no hierarchical relationship, since they can establish on their own the pace, routine, or geographic area, and must, however, diligently seek to preserve the good name, image and brand of TELEXFREE and its advertisers or suppliers of products and services.

2.4.2 - The remuneration received by PROMOTERS involves the bonuses and commissions earned by applying the binary system multilevel marketing methodology, in amounts that depend exclusively on the commitment of the individual and the group/network/category in which he operates; the stepped increases in pay serve as an incentive, and do not involve the imposition of a hierarchical order.

2.4.3 - The PROMOTER is expressly notified that it is prohibited for him to present himself as acting in the name of TELEXFREE in relation to public or private institutions, nor is he authorized to make purchases or sign commitments or obligations on behalf of TELEXFREE, YMPACTUS or the advertisers or suppliers of products or services offered by TELEXFREE.

2.4.4 - THE PROMOTER, upon registering and accepting the content of these GENERAL REGULATIONS, is fully aware that he will have ample ability to conduct his extracontractual activities, doing things entirely at his convenience, and able to engage in other activities, paid or not, with or without an employment relationship, with the understanding that there is no employment relationship with the CONTRACTOR.

2.4.4.1 The PROMOTER may not, however, be part of another Multilevel Marketing network whose activities are similar to TelexFREE's , or that may in any way create a conflict of interest.

2.5 -REQUIREMENTS FOR ENTRY AND REMAINING IN THE MULTILEVEL MARKETING SYSTEM

2.5.1 - Individuals interested in entering the TELEXFREE Multilevel Marketing System must become members through nomination by another PROMOTER, by: a) completely filling out the respective registration forms, b) sending in the registration form; c) payment of the membership fee.

2.5.2 - Membership must be paid for in one single installment through payment of the respective bank payment ticket, and this date will serve as the start of the 12-month period of its duration. As of the last day of expiration of the contract, it will only be possible to remain in the CONTRACTOR's Multilevel Marketing System through a new membership, with the following rules applying to this 2nd year, or subsequent years:

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2.5.2.5 -PROMOTERS not applying for membership for the following year within the deadline must wait for one year from the expiration to re-enter the system, through a new membership as a PARTNER.

2.5.3 - "Position" is understood to refer to a promoter's location in the multilevel network, which qualifies him to receive the respective bonuses, pursuant to the specific rules.

2.5.4 - When a position becomes vacant because of the exclusion of a PARTNER or PROMOTER or because of the latter's not being contracted for a second (or subsequent) year, or else because of contracting for a second, the position shall belong to TELEXFREE, including the respective remuneration, and TELEXFREE may transfer the rights of the position to a promoter.

2.5.9 - As a required procedure for membership and admission into the multilevel marketing system, candidates must fill out all data requested on the application form available at: <http://www.telexfree.com>. No other electronic address should be used for registration or for daily access. TELEXFREE does not recognize any other electronic addresses and, moreover, hereby gives notice that the use and information provided at other electronic addresses should not be used, under any circumstances. The effects of such use, if it should take place, shall be exclusively the liability of the user as well as the assignment of passwords to third parties.

2.5.10 - The Marketing system network of TELEXFREE allows only one registration for each person based on a valid, active ID

2.5.11 - A PROMOTER may transfer his position and the respective benefits to others as long as he respects the legislation in force and adheres to the rules of the Market Network Multilevel Marketing System itself.

2.5.12 - A PROMOTER who wishes to sell his position in the marketing system network should understand that this can only be done following the analysis and acceptance of the CONTRACTOR, and, if authorized, he will be charged administrative expenses equivalent to 10% (ten percent) of the amount already received in the position of the PROMOTER conveying it, upon executing the transfer, payable to TELEXFREE.

2.6 ETHICAL PRINCIPLES

2.6.1 - Acts of discrimination on the part of promoters are at variance with the ethical principles of TELEXFREE and may entail expulsion from the system, through express communication to such effect.

2.6.2 - Upon registering at the TELEXFREE site, the PROMOTER undertakes to use the resources offered strictly within the rules and schedules established by the TELEXFREE system at its website: <http://www.telexfree.com>, and furthermore, undertakes to observe these terms of use and to obey all federal, state and municipal laws and regulations in force.

2.6.3 - THE PROMOTER undertakes to use the TELEXFREE site only to consult the Market Network System for his respective area, download authorized content and send invitations to participate in the group, or disseminate his announcements, it being the case that any other unauthorized commercial use is expressly prohibited, under penalty of [forfeiture] of membership.

2.6.4 - As a condition for the use of the TELEXFREE site, for all legal purposes, the PROMOTER undertakes not to use resources for any purpose that is illicit, not regulated in this contract or prohibited. In such cases, TELEXFREE reserves the right to refuse service, close accounts, remove or edit content, or to cancel orders at its sole discretion.

2.6.5 - THE PROMOTER agrees to respect all applicable local, municipal, state, federal and international laws and regulations, being exclusively responsible for any actions or omissions carried out with his password, including on the content of his transmissions through the System, agreeing moreover that in particular he must not:

- a) use the TELEXFREE Network Marketing System in connection with surveys, contests, chain-mails, pyramids, spamming or unsolicited messages (whether commercial or otherwise);
- b) slander, defame, disturb the peace of others, persecute, threaten or in any other way violate the rights of third parties, such as rights to privacy and publicity;
- c) publish, distribute or disseminate any materials or information of discriminatory content that violates the rights of freedom of belief, or are defamatory, offensive, obscene, indecent or illegal;
- d) obtain or in any way collect information about others, including e-mail addresses, without the due consent of the owner;
- e) create a false identity to deceive others with regard to the identity of the sender or the source of the message;
- f) attempt to obtain unauthorized access to the TELEXFREE Network Marketing System, other accounts, computer systems or networks connected to the TELEXFREE Network Marketing System, through illegal password searching or in any other way;
- g) violate any applicable laws or regulations, including and without limitation, laws concerning the transmission of technical data;

h) interfere with the use and operation of the TELEXFREE Network Marketing System by another PROMOTER or with the use and operation of similar systems by other individuals or organizations;

i) violate the integrity or test the vulnerability of a data system or network security measures or violation of security or authentication;

j) interfere or try to interfere in the activities of any user, host or network, including, without limitation, through the introduction of malware into the Site, overloads, "flooding," "spamming," "mailbombing" or "break ins"; forging any headers or any part of the information in the header in any e-mail or posting;

k) use any mechanism, software, tool, agent, data or other device or mechanism (including, without limitation, browsers, spiders, bots, avatars or smart agents) to navigate or seek out sites other than those retrieved by the search engine and search agents provided by TELEXFREE or browsers generally available to the public;

l) publish, transmit or make available any material encouraging conduct that constitutes a criminal offense, or that encourages or supplies instructive information on illegal activities or activities such as "hacking," "cracking," or "phreaking";

m) use terms that distort the real meaning of products or the mechanism and functioning of multilevel marketing, including, without limitation, expressions that convey the idea of instant wealth for nothing in exchange, as well as speaking of registration costs as a "financial investment." Similarly, it is expressly prohibited to use the term "INVESTMENT" at meetings and in promotional materials in general, orally or in writing.

n) disseminating unauthorized material that has been modified or that is at variance with the rules of the TELEXFREE Network Marketing System or uses images of people without their authorization, or works protected by copyright including, site construction, blogs and spaces on social networks that could be interpreted as official corporate communications of TELEXFREE;

o) for proven sending of SPAM, that is, any kind of unauthorized message or message unsolicited by the addressee, containing information from the TELEXFREE Network Marketing System or its website;

p) for making profane or offensive comments, concerning or addressed to the System, the company that administers it or the people that run it;

q) for making profane, offensive, slanderous, obscene, indecent, defamatory comments, or comments that are otherwise at variance with the rules and conditions of the system, concerning or addressed to any of our PROMOTERS;

2.6.6 -In the event that it is ascertained by two or more elements of proof that a PROMOTER is inviting other promoters of TELEXFREE to take part in another network that also works with multilevel marketing, or is making use of the structure and contacts of the promoters of TELEXFREE to promote other events or feature other products and services not related to this activity.

2.6.7 If practices are proven that are in violation of this list of ethical behaviors, or another clause of this contract, steps will be taken pursuant to what is set forth in ARTICLE 10 of this instrument, and its respective sub-clauses.

3 - ATTRIBUTIONS AND DUTIES OF THE CLIENT/MEMBER.

3.1 - By submitting the application, the new member, whether a PROMOTER or not, agrees to receive messages in his mailbox (e-mail), via the specific tools used by the system, sent by upline and downline promoters on his line as well as those from TELEXFREE network administrators for other purposes.

3.2 - The PROMOTER agrees and hereby declares that the communications and notifications sent electronically by TELEXFREE to his e-mail address are valid for legal purposes.

3.3 - TELEXFREE reserves the right to engage in advertising, with content and format of its choosing, in any message(s) sent to its PROMOTER, who hereby agrees to receive them, without having the option of any special form of reply that would classify them as undesirable or unauthorized.

3.4 - THE PROMOTER declares, under penalty of the law, that the information provided by him on the website of TELEXFREE is true, accurate and complete, and undertakes to keep it up-to-date, especially the physical mailing address; and if such information is mistaken, incomplete or inconsistent, it shall not invalidate notifications sent by other means other than electronic ones.

3.5 - The access code and password of the PROMOTER is personal and non-transferable. TELEXFREE assumes no responsibility for the security of the data in the PROMOTER's personal computer file recorded on external media.

3.5.1 - The use of the virtual environment entitled *Back Office* can be implemented for the transfer of credit between PROMOTERS and for payment of invoices, their own, or those of third parties, and the member, whether a PROMOTER or not, should access the website only using the address www.telexfree.com, being aware that no other address is official and approved by TELEXFREE.

3.5.2 - TELEXFREE does not have any responsibility for transactions that promoters may execute using the virtual environment made available to effect such operations, the use of the password and its safekeeping being their responsibility. The member declares, whether a PROMOTER or not, that he should undertake to change its password periodically, and also that he will not use known numbers or obvious data associated with dates, relatives, or objects, for example, for his own security.

3.5.3 - with a view to protecting the image of TELEXFREE, PARTNERS, whether acting in the capacity of ADCENTRAL, FAMILY or TEAM BUILDER members, in making presentations to groups of people invited to join the TELEXFREE Multilevel network and use its products and services, must restrict themselves to the material made available in the video provided for the occasion, and may not express their own views in public. After showing the standard presentation, however, they may, addressing people individually, answer questions from the audience. No other material can be used at presentations.

3.5.4 - If at presentations a PARTNER or PROMOTER fails to comply with the instructions set forth above, he shall have his login blocked immediately and be subject to the disciplinary procedure of these GENERAL REGULATIONS, without impairment to civil and criminal liability.

4 - REMUNERATION AND PAYMENT METHOD

4.1 - The payment of bonuses and incentives to the PROMOTER, when in the form of money, shall be made by a bank check, or deposit to the checking account or savings account payable to the PROMOTER - ACCOUNT HOLDER.

4.2 - All payments by the PROMOTER to the CONTRACTOR/TELEXFREE, when made available in the financial system of the PROMOTER's country shall be made in the official currency. However, for the contract between TELEXFREE INC and YMPACTUS, the bases for calculation shall be established in U.S. dollars, always indicated by the symbol "US\$" since all operational activities are conducted at the headquarters of TELEXFREE INC in the United States of America.

4.3 - In all cases, TELEXFREE reserves the right to retain the total amount of the remuneration of the PROMOTER, taxes and/or benefits, as well as administrative expenses, if any, that result from any legal issue raised, defined as follows:

a) Administrative Expense - expenses that are charged by the banking system, whose stipulated amount shall be disclosed via the website: www.telexfree.com.br; with it being up to the user to check the information.

b).

4.4 - Amounts for monthly payments charged for use of the services that are the object of this instrument, as well as credit for promotion paid by the TELEXFREE Network Marketing System to the PROMOTER, for the marketing and incentive campaigns in effect, shall be specified on the registration page of the TELEXFREE site, and should be paid in accordance with the rules established therein, which may be altered for the adjustment of the campaign in progress, or at any time that TELEXFREE may deem it necessary, with its members to be so notified forthwith.

4.5 - In the event of a change in the currency or the national monetary system, the amount shall be converted to the new standard according to the official standards of equivalency in force.

4.6 - In the event of fluctuations or alterations in the economy to the degree of compromising the contractual balance, the amounts stated herein in national currency could undergo an adjustment to re-establish the necessary balance between the parties.

5 -TELEXFREE ADVERTISING CENTRAL - ADCentral or ADCentral FAMILY

5.1 - MEMBERSHIP: A Partner who wishes to enter the TelexFREE Multilevel Marketing system must establish his MEMBERSHIP as a "Partner Member," and to such end, pay the equivalent of US\$ 50.00 (fifty U.S. dollars).

5.1.1 - with membership, the PROMOTER: a) guarantees for 12 (twelve) months his position in the marketing system network and, b) is entitled to acquire the kit of VOIP accounts with exclusive discounts characterized as follows: AdCentral kit and/or Family kit, c) the right to sell 99TELEXFREE VOIP accounts through his sub-domain, at face value, and receiving in such cases a commission of 10% on the amount of the sale.

5.2 PROMOTER: this refers to the person who, after receiving his membership, (see following clause), may acquire a kit of VOIP accounts with an exclusive discount, which may be: a)

ADCentral, with 10 99TELEXPREE accounts or b) FAMILY, with 50 VOIP accounts, and in both cases he will receive a virtual BACK OFFICE that is to be used to post ads for the sale of these products which he has acquired with the exclusive discount; and if he manages to do so without interruption for each seven-day cycle, he shall receive an additional VOIP account.

5.3 - If he so desires, the PARTNER may sponsor other member/promoters, that is, for the same Tax ID, only up to 90 days counting from the date on which he pays for his first membership, and in that case, only registering them on his downline.

5.4 -ADCENTRAL PROMOTERS: After setting up his membership, a PARTNER may acquire an "ADCentral" kit consisting of 10 99TELEXPREE VOIP accounts, for which he must pay the equivalent of US\$ 289.00 (two hundred and eighty-nine U.S. dollars).

5.4.1 - with this qualification, the PARTNER will become a TELEXPREE PROMOTER and, accordingly, shall have his own active ad central for 12 (twelve) months, counting from the date of his membership (and not from the date of the purchase of the kit).

5.4.2 - He must also post 1 (one) announcement (prepared by TELEXPREE) per day on internet announcement sites (whether free of charge or not), so that at the end of each cycle of 7 (seven) announcements for the week, the PROMOTER shall receive one 99TELEXPREE account.

5.4.3 - If the promoter should choose to post announcements that are paid for, such expense is to be borne by the PROMOTER.

5.4.4 - The posting of announcements in numbers greater than one per day are not considered as two days, and so on, successively.

5.4.5 - After making payment for the kit, the partner becomes an ADCENTRAL PROMOTER and shall receive the right to sell the VOIP accounts at face value, as they are made available on the TeleXPREE site, for the duration of his contract, without, however, earning a commission either in the upline or the downline, without this constituting an acquired right if they are not sold in this period, and the offer can be closed without any indemnification.

5.4.6 - Upon receiving the 10 VOIP accounts, if he wishes to receive the bonus of one new VOIP account per week, he must implement a posting of an announcement for each seven-day cycle without interruption.

5.4.7 - If he should fail to make the announcement, even for a single day, he shall not receive the VOIP account indicated in the preceding subclause; if he makes more than one announcement per day, he shall not be compensated for the announcement on the following day.

5.5 -ADCENTRAL FAMILY MEMBERSHIP - A PROMOTER wishing to attain the status of an "ADCentral FAMILY Member" must pay the equivalent of US\$ 1,375.00 (one thousand three hundred and seventy-five U.S. dollars).

5.5.1 - With this membership, a PROMOTER shall have 5 (five) active announcement centrals for 12 (twelve) months, counting from the date of his activation.

5.5.2 - He must, in turn, post 1 (one) announcement (prepared by TELEXPREE) per day at internet announcement sites (whether free of charge or not) on each one of the 5 (five)

ADCentral sites. At the end of the 35 (thirty-five) announcements the PROMOTER shall receive 5 (five) 99TELEXFREE accounts as remuneration for these announcements.

5.5.3 - If for any reason the PROMOTER does not achieve the goal of 7 (seven) announcements per week, on each one of the 5 (five) ADCentral sites, the PROMOTER will not receive a 99TELEXFREE account for that particular week in which he did not meet the goal, from the respective ADCENTRAL.

5.5.4 - Other weeks begin normally and he can meet the goal and receive the compensation.

5.5.5 - Upon confirmation of payment of his membership fee, the promoter shall also receive, just once, 50 (fifty) 99TelexFREE packets that he can sell for as long as his contract remains in force, for the face value of the product, as disclosed by the TelexFREE site, and receiving credit for the sale of this product, which, however, will not generate any commission, either for the upline or the downline, and not accruing any rights if he does not put through the sale within this period, with the offer ceasing without any indemnification.

5.6 - An ADCentral can become a FAMILY ADCentral, making upgrades for each additional ADCentral with payment for this purpose of US\$ 289.00 (two hundred and eighty-nine U.S. dollars), for each additional one up to a total of 4 (four).

5.7 - A PROMOTER will achieve TEAM BUILDER status when he is active in an ADCentral FAMILY position (in the marketing network) that has 10 (ten) ADCentral FAMILIES on the incentive plan registered directly by him on his site.

5.7.1 - As long as he is fulfilling the qualification in clause 5.9.2, a TEAM BUILDER will earn a payment of 2% (two percent) of the company's net billing in the following month, received on the 10th day following the registration of the earning; the maximum amount for this earning, by contract, which is for one year, is up to US\$ 39,600.00 (thirty-nine thousand U.S. dollars), or the end of the 12- (twelve) month contract, whichever occurs first.

5.7.2 - The qualification referred to in clause 5.9.1 consists of the PROMOTER TEAM BUILDER's having sold 5 99TELEXFREE VOIP accounts as well as each one of the 10 PROMOTER ADCENTRAL FAMILIES in his network that formed the TEAM BUILDER.

5.8 - THE PROMOTER shall receive as an incentive a bonus of US\$ 20.00 (twenty U.S. dollars), for each VOIP ADCentral kit that his direct lower PARTNER acquires and a US\$ 100.00 (one hundred U.S. dollars) bonus for each VOIP FAMILY kit that his direct lower PARTNER acquires; in all cases, this promoter receiving the bonus must have at least one active 99TELEXFREE client plan.

5.9 - VOIP accounts acquired for each one of the plans, must be activated within the period of validity of the PROMOTER's registration, and shall not be computed as a "CLIENT" account that qualifies the PROMOTER to receive bonuses.

6 - BINARY PLAN QUALIFICATION - Earnings from Binary Cycles:

6.1 -A PROMOTER who directly registers 2 (two) new promoters, with one on the left side and the other on the right side of his marketing network, qualifies for direct and indirect binary

earnings, and for 2% (two percent) of the network from the first to the 6th level, assessed only on plans whose owners have at least one active VOIP client, that is, who have at least one active 99TELEXPREE plan.

6.1.1 - Upon qualifying in the manner described in the clause above by selling 2 (two) new ADCENTRAL kits to people in his network, with 1 (one) on the left side and the other on the right side, he shall receive an additional gratuity of US\$20 (twenty U.S. dollars), called the binary cycle, with the maximum daily earning in this status being US\$ 440.00 (four hundred and forty U.S. dollars), for 22 (twenty-two) binary cycles.

6.1.2 - If the sale is of 2 (two) VOIP ADCentral FAMILY kits, this cycle will yield an additional US\$ 20.00 (twenty U.S. dollars), for the ADCentral principals, plus US\$ 60 (sixty U.S. dollars), for 3 (three) of the 4 (four) ADCentral additional, leaving the additional ADCentral still remaining to initiate future cycles.

6.2 - This form of revenue stream rewards the PROMOTER directly when he registers 2 (two) new sales of VOIP kits to his PARTNERS; with 1 (one) on the left side and the other on the right side, or else indirectly through the growth of his natural network (individuals registered by promoters in his downline network on the left and right sides), or by spillovers (individuals registered by promoters in his upline network on the left and right sides). The maximum daily yield in this position is US\$ 15,360.00 (fifteen thousand, three hundred and sixty U.S. dollars), for the 768 (seven hundred and sixty-eight) cycles.

7 - INDIRECT EARNINGS FROM PRODUCT REVENUE

7.1 - THE PROMOTER shall receive an amount equivalent to 2% (two percent) on sales of 99TELEXPREE accounts made by the PROMOTERS in his network, both direct and indirect, up to the 5th level.

8 - ROYALTIES

8.1 - THE PROMOTER shall be entitled to a payment of 1% (one percent), in the form of ROYALTIES, from the company's net billing, if within 1 (one) calendar month (from the 1st (first) day - to the last day of the month) the PROMOTER shall have closed 22 (twenty-two) cycles in 20 (twenty) days, which need not necessarily be consecutive days.

9 - INDIRECT EARNINGS FROM SERVICE AND QUALIFICATION

9.1 - ACCESS TO VOIP SERVICE AND REVENUES THROUGH USE

9.1.1 - Promoters and other clients indicated by them can implement their communications access through VOIP - Technology for the transmission of voice signals over Internet Protocols (Voice over Internet Protocol) - using the software available for download directly from the portal www.telxfree.com.

9.1.2 - The promoter shall be paid directly For 99TELEXPREE accounts, and only for such accounts, the promoter shall be paid directly, For that is to say, when the client buys an individual VOIP 99TELEXPREE account on his site - he will receive a direct commission of 10% (ten percent) of the amount paid, and 2% (two percent) of indirect commission, from the 1st

(first) level to the 5th (fifth) level, for clients of his direct and indirect promoters, as long as the following requirements are satisfied:

9.1.2.1 - if each level has a direct 99TELEXPREE client with its active plan; thus, in order to receive the 2% commission at five levels, as mentioned in the previous clause, he must have five direct clients with active 99TELEXPREE; moreover, if he only has 4 direct clients with active 99TELEXPREE he shall receive a commission of 2% only on the first four levels, and so on, successively.

10 - CANCELLATION AND BLOCKAGE OF REGISTRATION

10.1 -CANCELLATION OF REGISTRATION

10.1.1 Through the procedures set forth in this section of this membership contract, TELEXPREE may cancel the registration of a PARTNER and a PROMOTER who violates the terms of the code of ethics, or fails to discharge any of the duties assigned to him, and also on grounds of material damaging to other promoters and their activities, or to other suppliers of information.

10.1.2 - A PARTNER or PROMOTER can cancel his membership within 7 (seven) days of becoming a member, and receive a full refund of what he actually paid to TELEXPREE, including the membership fee and the price of the VOIP accounts he has not activated; if the payment has been made with a credit card, he will be asked to cancel the purchase through the credit card company.

10.1.3 - To be disconnected from the TELEXPREE NETWORK Marketing System, a member must request cancellation of his participation on a specific form provided on his personal page, or in the event of absence or inability to use this resource, through a letter written and signed by him, with certified signature recognition, sent to the headquarters of the CONTRACTOR, correctly stating all of the information requested; if these data rigorously match the data reported when putting through the application, which is to be ascertained for reasons of security, the cancellation shall be approved in an irreversible manner.

10.1.4 If a PARTNER or PROMOTER seeks cancellation of membership after the legal deadline, he is aware that he will not receive any reimbursement of any amount, since his position will continue to entail expenses for its maintenance.

10.2 CANCELLATION OF PAYMENT

10.2.1 If a PARTNER or PROMOTER should cancel the payment for his membership, all logins having the same CPF/ss# or e-mail shall be suspended, and they shall be released upon payment of 10% of the amount of the purchases of the VOIP 99TELEXPREE kits (Partner, Adcentral, Family or Team Builder), in addition to reimbursement for all amounts that the promoter has received in the cancelled position.

10.2.2 Cancellation of payment shall also entail the cancellation of the amounts for the respective bonuses generated in the uplines of the binary system.

10.3 - BLOCKAGE OF REGISTRATION

10.3.1 The TELEXPREE NETWORK Marketing system can block the registration of a PARTNER/PROMOTER at any time, which becomes effective immediately, with notification to the PARTNER/PROMOTER,

if it believes that the latter has committed an act that directly or indirectly violates the provisions of this contract, in particular:

a) with the lapse of 15 (five [sic, i.e., 'fifteen']) days from the expiration of membership or the payment due date of any installment of the VOIP kits that he purchased, when purchased in installments.

b) if improper enticement of members of his own network of TELEXFREE promoters is proven.

c) if, with the lapse of 5 (five) days from the confirmation of his membership a PARTNER has not put through payment of the amounts specified for his membership.

10.3.2 Blockage consists of the total suspension of activities connected to the Back office area.

10.3.3 Concomitant with the blockage, while in this situation, the PROMOTER may not engage in any activity pertaining to his status.

10.4 - If actions are ascertained that are in violation of this contract, the PARTNER/PROMOTER shall be given the opportunity to present a written defense within 10 days, or to submit his resignation in the same manner and timeframe. If the acts in violation of this contract are confirmed, the blockage shall be converted into definitive Cancellation of Registration for membership, as well as the prohibition of a new registration/membership.

10.5 - A PARTNER/PROMOTER whose registration is cancelled by TELEXFREE as a result of what is set forth in this section, shall lose the right to all privileges offered by the TELEXFREE Network Marketing System, and cannot enjoy in any way the benefits that he held as a PROMOTER without the express consent in writing of the management of TELEXFREE.

10.6 - TELEXFREE shall not return, on any grounds or justification, the monthly payments made by the PROMOTER for the purchase of VOIP kits or other products, considering that he is fully aware that such amount was paid for the use of the resources provided by the TELEXFREE Network Marketing System as accessories in the conduct of the marketing campaign under way and/or, at the discretion of the PROMOTER himself, as an ongoing investment in the Network Marketing program made available, such that no request for reimbursement of amounts already transferred to TELEXFREE NETWORK Marketing System will be accepted.

11 - INTELLECTUAL PROPERTY RIGHTS

11.1 - The PARTNER/PROMOTER recognizes that the content, without limitation, of text, software, music, sound, photographs, videos, graphics or any other material contained in the advertising of sponsors or distributed electronically, as well as information produced commercially that has been presented to him by TELEXFREE, by advertisers of TELEXFREE or by other suppliers of content, is protected by the laws of copyright and Trademark protection. Included also in this protection are brands of advertisers or sellers of products and services that have contracted with TELEXFREE to promote and commercialize their products and services, including Computer programs, Brands and Patents, although as long as it is authorized by TELEXFREE, it possible to obtain a copy, of such content solely for its use in the non-commercial promotion of the TELEXFREE Network Marketing System, as long as the Copyright notices and other notifications of intellectual property and image are kept intact, with any modification, copying, reproduction, republication or sending of altered data to another computer or by some other manner of distribution being prohibited.

11.2 - The compilation, organization and setting up of all site content is the exclusive property of TELEXFREE and protected by U.S. and international copyright laws, also including brands and patents.

11.3 - Access to the website does not constitute a license for the PROMOTER to use its content or any rights of third parties encompassing those relating to intellectual property.

12 - LINKS TO SITES OF THIRD PARTIES

12.1 - The site may contain interactive links and functionalities that interact with the sites of third parties, including sites of social networks. TELEXFREE is not responsible and has not liability for the functionality, actions, omissions, privacy configurations, privacy policies, terms and conditions and the content of any website.

12.2 - The links and interactive functionality with third party sites at the site do not constitute an endorsement by TELEXFREE of these third party sites, moreover, it is clarified that other sites can link to the site with or without our authorization, and TELEXFREE can block any links to or from the Site.

12.3 - The use of third party sites shall occur exclusively at the expense and risk of the PROMOTER. That is to say, TELEXFREE through its employees, directors, agents, vendors or suppliers shall not be liable for any direct or indirect losses, including damages resulting from the use or incapacity of the third party links used.

13 - FINAL PROVISIONS

13.1 - TELEXFREE Network Marketing System reserves the right at any time to monitor, review, withhold and/or disclose any information, in order to comply with the applicable legislation, regulations, judicial proceeding or requirement of the competent authority.

13.2 - TELEXFREE, by its exclusive analysis, in keeping with timely and appropriate standards, may repurchase the PROMOTER'S 99TELEXFREE accounts, not, however, guaranteeing "face value" for the product, negotiating the price based on volume, demand and/or its own inventory.

13.3 - It is part of the policy of TELEXFREE Network Marketing System to respond promptly to complaints concerning intellectual property offenses. TELEXFREE shall promptly process and investigate complaints concerning infractions, taking the necessary measures pursuant to the terms of the other property laws that may apply, TELEXFREE shall take action immediately to remove or prevent access to any material subject to violation, as well as to any reference or link to the material subject to violation, also eliminating access for any subscribers and members who have been offenders.

13.4 - The information included in the TELEXFREE Network Marketing System or available thereby may contain inaccuracies or typographical errors, and it may undergo alterations; moreover, TELEXFREE and/or its respective suppliers, at any time and without the need to give prior notice, may make changes in any part of the system, including these terms of use, for which reason the PROMOTER undertakes to engage in ongoing review hereof.

13.5 - TELEXFREE Network Marketing System does not declare or guarantee that it shall not be interrupted, or that it shall be free of errors, that defects will be immediately corrected,

or that the system itself or the server that makes it available will be free of viruses or other harmful elements.

13.5.1 - It does affirm, however, that upon discovering any abnormality in its domain, it shall take the most urgent measures to regularize the situation.

13.6 - THE PROMOTER agrees to indemnify TELEXFREE and hold it harmless, along with any of its partners, subsidiaries and affiliates, as well as its offices, employees and staff, of any liability for any claims, lawsuits or losses and damages, including attorneys' fees, that may be claimed by third parties, due to or arising from their use of the TELEXFREE Network Marketing System, or conduct relating to same.

13.7 - The TELEXFREE NETWORK Marketing System reserves the right to alter the terms of use or guidelines concerning the use of the System at any time and without any need for prior notice, proceeding thereupon to publish an updated version on its website.

13.7.1 - THE PROMOTER is responsible for periodically reviewing the current content of the TELEXFREE site and of these GENERAL REGULATIONS since they may be altered, always subject to ample notification, after which alterations shall be considered tacitly accepted by those who have become members.

13.8 - Compliance with what is set forth in these GENERAL REGULATIONS by all parties at TELEXFREE is subject to the laws of the USA and the state of Nevada (with the exception of Louisiana Member/Promoters, Louisiana Promoters may choose Louisiana Laws) and relevant legal procedures, and no provision thereof contravenes the right of TELEXFREE to comply with administrative or judicial requirements or orders imposed by the competent authorities, with regard to the use by the PROMOTER of the TELEXFREE Network Marketing System or the information provided by TELEXFREE, or collected by it as the result of such use, and if any provisions of this agreement are declared null or void in the light of the legislation in force, including, without limitation, provisions concerning exemption and limitation of the liabilities mentioned above, such null and void provisions shall be replaced by valid and effective provisions that respect the intention and purpose of the original provisions, with the remaining provisions of these Terms of use in full force and effect.

13.9 - Unless otherwise provided in this document, these GENERAL REGULATIONS constitute the entire agreement between the PROMOTER and TELEXFREE with relation to the use of the System itself, except with regard to the use of any software that may be governed by an end-user license agreement, and replaces any and all communications or proposals, prior or current, whether through electronic, spoken or written communication between the user and TELEXFREE with regard to the Market Network System.

13.10 - The printed version of this agreement and of any notification or notice delivered in electronic form shall be admissible in legal or administrative proceedings resulting from or related to these GENERAL REGULATIONS, and subject the same conditions as other documents and commercial records originally generated and maintained in hard copy.

13.11 - Laws of the USA and the state of Nevada (with the exception of Louisiana Member/Promoters, Louisiana Promoters may choose Louisiana Laws), is chosen to settle any issues arising from this instrument, with the express renunciation of any other now matter how privileged it may be, or may become, except for questions having to do with consumers, when

the jurisdiction or competency shall be established on the basis of what is provided in the Code of Consumer Protection.

13.12 - This version of this membership contract shall take effect starting February 10, 2013, rescinding any provisions of the previous membership agreement that may be at variance with this one.

Signature: the original copy of this agreement is signed.

TELEXFREE

EXHIBIT 2

1 NANCY A. MITCHELL (*pro hac vice pending*)
 2 MARIA J. DICONZA (*pro hac vice pending*)
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11 *Proposed Counsel for the Debtors*
 12 *and Debtors in Possession*

13 **UNITED STATES BANKRUPTCY COURT**
 14 **FOR THE DISTRICT OF NEVADA**

15 In re:

16 TELEXFREE, LLC,

17 Affects this Debtor

18 Affects all Debtors

19 Affects TELEXFREE, INC.

20 Affects TELEXFREE FINANCIAL, INC

Case No.: BK-S-14-12524-abl
 Chapter 11

[PROPOSED]

Jointly Administered with:

14-12525-abl TelexFree, Inc.
 14-12526-abl TelexFree Financial, Inc

Date: OST REQUESTED
 Time: OST REQUESTED

21 **OMNIBUS DECLARATION OF WILLIAM H. RUNGE, IN IN SUPPORT OF THE**
 22 **DEBTORS' CHAPTER 11 PETITIONS AND REQUESTS FOR FIRST DAY RELIEF**

23 **WILLIAM H. RUNGE, III**, hereby declares, under penalty of perjury, as follows:

24 1. I am the Chief Restructuring Advisor ("CRA") of TelexFree, LLC, a Nevada
 25 limited liability company ("TelexFree Nevada"), TelexFree, Inc., a Massachusetts corporation
 26 ("TelexFree Massachusetts") and TelexFree Financial, Inc., a Florida corporation ("TelexFree
 27 Florida" and together with TelexFree Massachusetts and TelexFree Nevada, "TelexFree," the
 28 "Debtors" or the "Company"). TelexFree Nevada was organized in August 2012. TelexFree
 Massachusetts was incorporated in 2002 as Common Cents Communications, Inc. TelexFree
 Florida was incorporated in 2013. Each of TelexFree Nevada and TelexFree Massachusetts are

1 owned by Carlos Wanzeler (50%) and James Merrill (50%). TelexFree Florida is a wholly-
2 owned subsidiary of TelexFree Nevada.

3 2. I perform my duties out of the Debtors' headquarters in Marlborough,
4 Massachusetts. I submit this declaration (the "**Declaration**") in support of the Debtors' chapter
5 11 petitions and requests for relief contained in certain "first day" applications and motions filed
6 on or shortly after the date hereof (the "**First Day Motions**").

7 3. I am a Managing Director with Alvarez & Marsal ("A&M"), a global leader in
8 business restructuring and reorganization, and head of its North American restructuring practice
9 for the Southern United States. I specialize in business diagnostics, business plan development
10 and financial strategies for corporate turnarounds and restructuring. My primary areas of
11 concentration are formulating and evaluating operational and organizational structures, and
12 developing and implementing new strategies in the heavy manufacturing, distribution,
13 telecommunications, and technology industries.

14 4. I have more than 35 years of experience working in industry, operations,
15 financial and executive management, and turnaround consulting. I have worked primarily with
16 companies challenged by transitions resulting from rapid growth, acquisitions, changes in
17 financial structure and changes in market environments. In addition to holding positions as
18 officers and directors at several companies, I have led numerous debtor and creditor advisory
19 consulting engagements and have served as a federal receiver for the United States District Court
20 for the Northern District of Georgia.

21 5. Recently I have served as the interim president of Clipper Windpower and the
22 CFO of PG&E National Energy Group. I also have served as the operational/financial advisor to
23 Flowers Floods, JGA Corp., Skinner Nurseries, Metromont Corp, Touch One Communications,
24 Star Telecommunications, Wheland Foundry, Pharr Yarns, Inc., Russell Corporation, Qimonda
25 Corp., Hayes Microcomputer, Inc., Sunshine-Jr. Stores and Laclede Steel Company, among
26 others. Additionally, I was an advisor to the senior creditors of Bellisio Foods, Pilgrim's Pride
27 Corporation, Allen's Family Foods, Cagle's Chicken, Dairy Production Systems LLC, Frozen
28 Specialties, Inc., Horizon Lines Inc., iGPS Pallet Logistics, and WorldPoint Logistics.

1 11. TelexFree is operated as a multi-level marketing company, and currently has over
2 700,000 associates or promoters (the "**Promoters**") worldwide. Prior to the filing of these
3 Cases, TelexFree compensated Promoters for the sales of the VoIP product, the placing of
4 advertisements and the recruitment of other Promoters down line. Because questions were raised
5 about its compensation plan, the Company on March 9, 2014, discontinued its original
6 compensation plan (the "**Original Comp Plan**") and replaced the Original Comp Plan with a
7 revised compensation plan (the "**Revised Comp Plan**" and together with the Original Comp
8 Plan, the "**Pre-Petition Comp Plans**"). At the time of the roll-out of the Revised Comp Plan,
9 the Company decided to honor certain discretionary payments to Promoters under the Original
10 Comp Plan. These discretionary payments quickly became a substantial drain on the Company's
11 liquidity. The Company discontinued the Pre-Petition Comp Plans and ceased making
12 discretionary payments under the Original Comp Plan prior to the date of the filing of these
13 Cases (the "**Petition Date**").

14 12. The Company believes the sales of the 99TelexFree product, the TelexFree "app,"
15 and other new products will ultimately prove successful and profitable. The Company is
16 struggling, however, with several factors that required it to seek chapter 11 protection by filing
17 these Cases. First, the Company experienced exponential growth in revenue between 2012 and
18 2013 (from de minimus amounts to over \$1 billion), which put tremendous pressure on the
19 Company's financial, operational and management systems. Second, although the Company
20 revised its Original Comp Plan in order to address certain questions that were raised regarding
21 such plan, the Company believes that the Pre-Petition Comp Plans need to be further revised.
22 Finally, the trailing liabilities arising from the Original Comp Plan are difficult to quantify and
23 have resulted in substantial asserted liabilities against the Company, a number of which may not
24 be valid.

25 13. As a result, the Company filed these Cases to obtain the breathing room to
26 address its operational and regulatory issues, revise the Pre-Petition Comp Plans, and quantify
27 and address the claims against it. The Debtors believe that a restructuring of its debt, adoption of
28 a post-petition revised compensation plan, unveiling of new products (including the TelexFree

1 app), and return to growing its Customer base will allow the Company to realize its full potential
2 and generate significant value for its constituents.

3 14. To minimize the adverse effects of the commencement of the Cases on their
4 business, the Debtors request various types of relief in the First Day Motions. The First Day
5 Motions are described in greater detail in Part III below. Pursuant to the First Day Motions, the
6 Debtors seek, among other things, to: (a) continue the Debtors' operations with as little
7 disruption as possible; (b) maintain the confidence and loyalty of the Debtors' associates,
8 Promoters, customers, and employees; (c) comply with applicable state telecommunications
9 authorities and public utility commissions; and (d) retain appropriate professionals. Gaining and
10 maintaining the support of the Debtors' key constituencies, as well as operating the Debtors'
11 day-to-day business with minimal disruption and erosion, will be crucial to the success of the
12 Debtors' efforts in these Cases to maximize the value of the Debtors' estates as they work
13 through the Chapter 11 process.

14 15. On the Petition Date, the Debtors commenced the Cases by filing voluntary
15 petitions for relief under title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the
16 "Bankruptcy Code"), in the United States Bankruptcy Court for the District of Nevada (the
17 "Bankruptcy Court").

18 **II.**
19 **BACKGROUND**

20 **A. Corporate Structure of the Debtors.**

21 16. The Company's operations are primarily booked through TelexFree Nevada,
22 which according to the Company's pre-petition financial statements received approximately two-
23 thirds of the approximately \$1 billion in revenues recorded in 2013. TelexFree Nevada is the
24 contracting party to the terms and conditions contract with the Promoters (the "Promoter
25 Contract"). TelexFree Florida is the owner of the Company's primary bank account.
26 TelexFree Massachusetts was the original corporate entity but is being phased out.

27 ...

28 ...

1 **B. Development of the TelexFree Product and Multi-Level Marketing Structure.**

2 17. The Company's current business was started in 2012 by James Merrill and Carlos
3 Wanzeler after both individuals worked for a long period within the telecommunications and
4 multi-level marketing industries. After working together in an unrelated business owned by
5 Merrill through most of the 1990's, Merrill and Wanzeler in or around 1997 became agents of a
6 multi-level marketing company selling international phone service called World Exchange.
7 Wanzeler, who was born in Brazil, knew from experience that international telephone calls to
8 Brazil were exceedingly expensive. World Exchange sold international landline phone service at
9 a significant discount to the major carriers, such as AT&T. Recognizing an opportunity to sell
10 international phone services to immigrants in the United States at a discount, Wanzeler and
11 Merrill became successful agents for World Exchange, with Wanzeler building a network of
12 approximately 100,000 agents selling the World Exchange product. In 2002, Wanzeler and
13 Merrill incorporated a company in Massachusetts called Common Cents Communications in
14 connection with their distribution of the World Exchange product. In or around 2003, World
15 Exchange was purchased by another company and discontinued the distribution and marketing of
16 its product through multi-level marketing.

17 18. During roughly the same time period, Wanzeler and Merrill became aware of
18 VoIP, which at the time was an emerging technology and represented an opportunity to offer
19 international telephone service over the internet at prices even lower than those charged by
20 World Exchange. After World Exchange discontinued its multi-level marketing program,
21 Wanzeler and Merrill began to develop their own VoIP services. They contracted with LogiTel
22 Corp. to assist in the development of the VoIP product and purchased the necessary servers and
23 switches.

24 19. In or around 2003, Wanzeler and Merrill formed another company doing business
25 as Disk A Vontade and began selling their VoIP product. Customers of Disk A Vontade purchase
26 the VoIP product over the counter at various convenience stores in the United States. Wanzeler
27 and Merrill marketed Disk A Vontade through television advertising at a significant cost. Disk
28 A Vontade continues to exist and offer VoIP telephone services to thousands of customers.

1 20. In 2012, Wanzeler and Merrill decided to use multi-level marketing to distribute
2 their VoIP product. With the assistance of a Brazilian associate named Carlos Costa, Wanzeler
3 and Merrill began the current business of TelexFree in 2012. TelexFree's services initially
4 became popular in Brazil, but its popularity has since grown worldwide.

5 **C. TelexFree's Multi-Level Marketing Compensation Plan Before March 9, 2014.**

6 21. Under the Original Comp Plan, new Promoters were required to pay a \$50
7 membership fee. This fee set up a Promoter's account, and provided a Promoter with access to
8 their own unique TelexFree website and accounting page (called the "back office"),
9 informational materials, approved ads for placement, and other services related to helping the
10 Promoter sell 99TelexFree packages. A Promoter's contract lasted for one-year after the date of
11 sign-up. After they paid their \$50 membership fee, Promoters had the option of purchasing two
12 AdCentral packages:

- 13 • \$289 AdCentral Package: A Promoter purchased ten (10) 99TelexFree VoIP
14 packages that they could re-sell for \$49.90 each, and earn monthly commissions after
the first month.
- 15 • \$1,375 AdCentral Family Package: A Promoter purchased fifty (50) 99TelexFree
16 VoIP packages that they could re-sell for \$49.90 each, and earn monthly commissions
after the first month.

17 Each AdCentral package required the purchase of a Promoter membership. By contract, a
18 Promoter had one year to sell VoIP packages from the date of purchase. Promoters could earn
19 money through TelexFree's multi-level marketing program in several different ways, including
20 commissions on sales, placement of internet advertisements for the TelexFree VoIP product, and
21 the recruitment of new Promoters.

22 22. After a Promoter purchased either the AdCentral or the AdCentral Family
23 package, they became eligible to post advertisements for one-free hour of the TelexFree VoIP
24 service. The Company required a Promoter to place an ad on a free website recommended by
25 TelexFree (such as Craigslist.org), or a website that they independently located. When a
26 potential customer clicked on the ad, they were taken to the Promoter's unique website where
27 they could try the VoIP service for one-hour free. If that potential customer chose to purchase
28

1 the 99TelexFree package, the Promoter that posted the ad received \$49.90 paid by the potential
2 customer. The Promoter also received commissions if that potential customer chose to purchase
3 monthly VoIP services.

4 23. For Promoters that purchased the \$289 AdCentral Package, each Promoter who
5 posted one ad every day for one week received an additional 99TelexFree VoIP package at the
6 end of that week for sale to retail customers. If a Promoter was unable to sell that package to a
7 retail customer for \$49.90, the Company had the option to repurchase the package for \$20 if the
8 Promoter chose to sell it back to the Company (the "Ad Buy Back").

9 24. For Promoters that purchased the \$1,375 AdCentral Family Package, Promoters
10 who posted five ads each day for one week received five additional 99TelexFree VoIP packages
11 at the end of that week for sale to retail customers. If a Promoter was unable to sell those
12 packages to a retail customer for \$49.90 each, the Company had the option to repurchase the
13 package for \$100 if the Promoter chose to sell it back to the Company under the Ad Buy Back.

14 25. TelexFree has spent hundreds of millions of dollars buying back VoIP packages
15 through the discretionary Ad Buy Back.

16 26. It is the Company's understanding that at or about the same time that TelexFree
17 commenced doing business, Carlos Costa set up a separate company in Brazil called Ympactus
18 Ltda. ("Ympactus") to distribute the TelexFree product and create a multi-level marketing
19 network in Brazil. In July 2013, Brazilian authorities shutdown Ympactus and froze its assets
20 after accusing Ympactus of operating as a pyramid scheme. Investigations by state and federal
21 authorities continue in Brazil, and numerous lawsuits against Ympactus by Brazilian promoters
22 have been filed.

23 27. The Secretary of the Commonwealth of Massachusetts, Securities Division
24 ("MSD") issued subpoenas for documents and information to TelexFree Massachusetts on
25 January 22, 2014 and February 5, 2014. The Company timely responded to these subpoenas and
26 provided the requested information.

27 ...

28 ...

1 **D. TelexFree Hires Several New Advisors And Develops A New Compensation Plan.**

2 28. As a result of the concerns raised by Brazilian authorities in the proceedings
3 against Ympactus, TelexFree hired new multi-level marketing advisors in or around August 2013
4 to develop a new compensation and network structure that went into effect March 10, 2014.
5 Under the Revised Comp Plan, Promoters no longer had the option of purchasing AdCentral
6 packages. Instead, all individuals enrolled in TelexFree as an "Associate" by paying an annual
7 membership fee of \$149.95 and a monthly administrative fee of \$19.90, which includes a
8 replicated website, back office, and a financial platform. Associates received commissions based
9 upon their sales of 99Telexfree, as well as from the sales of associates they recruit.

10 29. In the Revised Comp Plan, Associates may become TelexFree Promoters when
11 they enroll ten non-affiliate customers. Promoters earn money through the Revised Comp Plan
12 in a variety of ways closely tied to the sales of 99Telexfree. Promoters earn direct and indirect
13 99Telexfree sales commissions, bonuses for successful recruitment of new Promoters, and
14 payments for ad placement. A Promoter who becomes "Ad Family" or "Ad Family Plus" may
15 earn \$50 or \$100 per week, respectively, for ad placement.

16 30. The revenues generated from the Revised Comp Plan have been disappointing to
17 the Company and do not allow the Company to meet its obligations.

18 **E. TelexFree Hires New Management.**

19 31. In December 2013, the Company hired Joseph Craft, CPA as acting Chief
20 Financial Officer. Beginning in or around April 2012, Craft served as the Company's accountant
21 and prepared its taxes and financial statements.

22 32. In February 2014, the Company hired Stuart MacMillan to act as its Interim Chief
23 Executive Officer. MacMillan has over 25 years of management experience, the last 15 of which
24 have been in direct selling and multi-level marketing companies. Among other management
25 positions, MacMillan previously served as the first International President of Excel
26 Communications, a multi-level marketing telecommunications company, and later as the
27 President of Excel Communications in Canada. MacMillan also acted as the first Managing
28 Director of Arbonne Canada.

1 33. Mr. Craft and Mr. MacMillan are currently acting as the Debtors' Interim CFO
2 and CEO, respectively.

3 **F. Events Leading Up to the Chapter 11 Filings.**

4 34. The Company's growth in the period prior to the Petition Date had been
5 staggering. Under the Original Comp Plan, the Company took in approximately \$3 million in
6 revenue per day. The Company's revenue growth occurred quickly and the Company's systems
7 were simply unable to handle the level of demand for its products and services.

8 35. The legal actions in Brazil against Ympactus also raised issues for the Company
9 and caused the Company to determine that it needed to restructure its Original Comp Plan. The
10 change from the Original Comp Plan to the Revised Comp Plan resulted in daily revenues
11 dropping to between \$100,000 and \$300,000 per day. In addition, asserted claims by Promoters
12 for weekly withdrawals increased dramatically. In the week following the introduction of the
13 Revised Comp Plan, Promoters asserted claims for an aggregate of \$8 million from their back
14 office accounts, then an aggregate of \$20 million the following week, then an aggregate of \$30
15 million each of the following two weeks, and in excess of \$86 million in the aggregate the week
16 preceding the filing of the Cases. The majority of these asserted claims were for amounts related
17 to the discretionary Ad Buy Back.

18 36. The problems were exacerbated by the inability of the Company to quantify the
19 actual claims under the Original Comp Plan. It appears that certain Promoters were abusing the
20 Original Comp Plan by buying tens and even hundreds of AdCentral Packages for the purpose of
21 earning funds through the discretionary Ad Buy Back, rather than selling VoIP packages as the
22 Company intended. This practice is prohibited by the Promoter Contract. As a result, the
23 Company could not quickly quantify the legitimate associate and Promoter compensation claims
24 against the Company.

25 37. The Revised Comp Plan was better designed to require Promoters to sell the
26 99TelexFree VoIP product and acquire Customers. However, it does not appear that the post-
27 Revised Comp Plan will produce sufficient revenues to sustain the Company's
28 telecommunications business.

1 **G. Efforts During the Chapter 11 Reorganization Period.**

2 38. The Company hired A&M as its CRA on April 10, 2014 to safeguard existing
3 cash, guide the Debtors through a Chapter 11 reorganization, and develop a profitable business
4 plan based on a revised compensation arrangement.

5 39. Early in the Cases, the Debtors (working with A&M and certain outside
6 consultants) intend to quickly develop a new compensation plan that will replace the Pre-Petition
7 Comp Plans. The Company also intends to discontinue and reject the Pre-Petition Comp Plans
8 and quantify the legitimate claims under those Plans. Once the legitimate claims have been
9 quantified and the Company has developed a new compensation program, the Debtors hope to
10 reorganize and satisfy the claims against them. The Company will continue to provide
11 telecommunications services to new and existing customers during the pendency of these Cases.

12 40. The Debtors further are implementing a new cash management system to
13 safeguard funds for the benefit of all constituents. After the Ympactus investigation, the
14 Company had difficulty maintaining depository relationships with federally regulated banking
15 institutions. To address this issue and to provide assurances to creditors, regulators and the
16 Court that the Debtors' funds have been protected, the Debtors have adopted board resolutions
17 that have transferred exclusive signing authority for all banking accounts to the Interim CFO and
18 CEO. In addition, the Debtors, led by the CRA, are negotiating to have the Debtors' funds
19 deposited in an escrow account with a regulated financial institution. While the Debtors will
20 need access to escrowed funds to operate, any withdrawal from such account would require
21 Bankruptcy Court authority.

22 41. The Debtors also anticipate that they will continue to cooperate with MSD in its
23 investigation. MSD issued an additional subpoena on April 2, 2014, and the Company is
24 presently preparing its response.

25 **III.**
26 **FIRST DAY MOTIONS**

27 42. Concurrent with the filing of the voluntary petitions to commence these Cases, the
28 Debtors will be filing several First Day Motions. The Debtors anticipate that the Bankruptcy

1 Court will conduct a hearing within a business day or two after the commencement of the Cases
2 (the “**First Day Hearing**”), during which the Bankruptcy Court will entertain the arguments of
3 counsel with respect to the relief sought in each of the First Day Motions.

4 43. Generally, the First Day Motions have been designed to meet the immediate goals
5 of: (a) establishing procedures for the efficient administration of the Cases; (b) continuing the
6 Debtors’ operations during these Cases with as little disruption and loss of productivity as
7 possible; and (c) maintaining the confidence and support of the Debtors’ other key
8 constituencies. I have reviewed each of the First Day Motions, including the exhibits attached
9 thereto, and believe that the relief sought in each of the First Day Motions is narrowly tailored to
10 meet the goals described above and, ultimately, will be critical to the Debtors’ ability to achieve
11 success in these Cases.

12 44. The First Day Motions are summarized below.

13 A. **Emergency Motion of the Debtors for Entry of an Order Directing Joint**
14 **Administration of Chapter 11 Cases.**

15 45. By this motion, the Debtors request the joint administration of the Debtors’
16 related chapter 11 cases for procedural purposes only. Specifically, the Debtors request that the
17 Court maintain one file and one docket for the Debtors’ cases under the TelexFree Nevada case
18 and also request that the caption of their cases be modified to reflect the joint administration of
19 the cases.

20 46. Joint administration of these cases (a) is warranted because the Debtors’ financial
21 affairs and business operations are closely related, and (b) will ease the administrative burden on
22 the Court and parties-in-interest in these cases. The Debtors anticipate that numerous notices,
23 applications, motions, pleadings, hearings, orders, and other documents in these cases will affect
24 all of the Debtors. With three (3) affiliated Debtors, each with its own case docket, the failure to
25 administer these cases jointly would result in numerous duplicative pleadings being filed and
26 served upon parties identified in separate service lists. Such duplication of substantially identical
27 documents would be extremely wasteful and would unnecessarily overburden the Debtors, the
28 Clerk of the Court (the “**Clerk**”), creditors, and other parties-in-interest in these Cases.

1 47. I understand that if the Court approves joint administration of the Debtors' cases,
2 the Debtors will be able to reduce fees and costs resulting from the administration of these
3 Chapter 11 Cases and ease the onerous administrative burden of having to file multiple
4 documents. I have also been advised that joint administration will ease the administrative burden
5 for the Court and all parties to these cases and obviate the need for duplicative notices, motions,
6 applications and orders, and thereby save time and expense for the Debtors and their estates.

7 48. Based on the foregoing, the Debtors believe that joint administration of the cases
8 is in the best interests of the Debtors, their estates and all parties in interest, and should be
9 granted in all respects.

10 **B. Emergency Motion of the Debtors Pursuant to Sections 105(a), 363, 364, 503,**
11 **507(a)(4), 507(a)(5), 541, 1107 and 1108 of the Bankruptcy Code and Bankruptcy**
12 **Rules 6003 and 6004(h) for Entry of an Order (a) Authorizing Debtors to Pay (I) All**
13 **Prepetition Employee Obligations, (II) the Independent Contractors' Fees and (III)**
14 **the Contracting Agencies' Fees and (b) Directing the Disbursing Bank to Honor**
15 **Related Transfers.**

16 49. The Debtors' employees (the "Employees") are essential to the continued
17 operation of the Debtors' business, and the Employees' morale directly affects their effectiveness
18 and productivity. Consequently, it is critical that the Debtors continue, in the ordinary course,
19 any personnel policies, programs, and procedures that were in effect prior to the Petition Date.
20 Accordingly, by this motion (the "Employee Wage Motion"), the Debtors seek entry of an order
21 (a) authorizing, but not directing, the Debtors to pay (i) certain prepetition employee obligations
22 described herein (collectively the "Employee Obligations"), (ii) the Independent Contractors'
23 Fees (as defined below) and (iii) the Contracting Agencies' Fees (as defined below) and (b)
24 directing PNC Bank, N.A. (the "Disbursing Bank") to honor the Debtors' prepetition checks or
25 electronic transfers for payment of any of the foregoing, and prohibiting the Disbursing Bank
26 from placing holds on, or attempting to reverse, any automatic transfers on account of the
27 foregoing.

28 1. **The Employees.**

 50. TelexFree Massachusetts operates primarily out of its headquarters in
Marlborough, Massachusetts, and employs fourteen (14) employees (the "Employees"), which

1 are paid by TelexFree Florida. TelexFree Massachusetts is the only Debtor that hires employees.

2 51. Two (2) of the Employees are salaried and twelve (12) work on an hourly basis.
3 The Employees provide customer service support for the Debtors' independent representatives
4 and customers, as well as financial and marketing services for the Debtors. None of the Debtors'
5 insiders are employees of the Debtors.

6 **2. The Employee Obligations.**

7 52. To retain its Employees, TelexFree Massachusetts incurs certain obligations
8 discussed below in the ordinary course of business, which obligations are consistent with
9 similarly situated companies. The Employee Obligations are not owed to any of the Debtors'
10 insiders.

11 a. Wages, Salaries and Payroll Obligations.

12 53. All Employees are paid wages and salary (collectively, the "Wages and
13 Salaries") on a weekly basis, on every Friday, for the work period ending the previous Friday.
14 Payroll averages approximately \$9,878.00 per pay period in the aggregate, including the
15 Employee Taxes (as defined below). Eleven (11) of the Employees are paid through electronic
16 fund transfers, i.e. direct deposit, while the remaining Employees are paid by paper checks.

17 54. The Debtors' last regular payroll date was April 11, 2014, and the next payroll
18 date is scheduled for April 18, 2014. The Debtors estimate that, as of the Petition Date,
19 approximately \$12,000.00¹ in Wages and Salaries, commissions and payroll obligation have
20 accrued, and are owed to their Employees, with no employees owed in excess of \$12,425.00. By
21 this Employee Wage Motion, the Debtors request the authority to pay all unpaid Wages and
22 Salaries to their Employees in the ordinary course of business.

23 55. Harpers Payroll Services, Inc. ("Harpers") processes payroll for TelexFree
24 Massachusetts. On average, Harpers is owed a total of approximately \$160.00 per month on
25 account of payroll administration and certain other payroll related services. Harpers invoices
26 TelexFree Massachusetts on a weekly basis for services provided and obtains payment by

27 ¹ This figure includes the amount of Wages and Salaries owed for the week ending April 11, 2014 as well
28 as amounts that have been paid to Employees by checks that have not yet been cashed.

1 accessing the primary account at the Disbursing Bank. The Debtors estimate that there are
2 \$40.00 accrued and unpaid costs in connection with payroll processing services. By this Motion,
3 the Debtors request the authority to continue to pay Harpers the weekly fee in the ordinary
4 course of business.

5 56. TelexFree Massachusetts, as employer, is required by law to withhold federal and
6 state taxes from Wages and Salaries for remittance to appropriate tax authorities (the "**Employee**
7 **Taxes**"). The Employee Taxes total approximately \$2,300.00 per pay period. In addition,
8 TelexFree Massachusetts is required to pay, from their own funds, the social security and
9 Medicare taxes and pay, based on a percentage of gross payroll and subject to state-imposed
10 limits, additional amounts for state and federal unemployment insurance (the "**Employer**
11 **Taxes**," and together with the Employee Taxes, the "**Payroll Taxes**") and remit the same to the
12 appropriate authorities (collectively, the "**Taxing Authorities**"). Social Security and Medicare
13 taxes are collected under the Federal Insurance Contribution Act's authority (FICA). Employer
14 Taxes total approximately \$1,600.00 per pay period. For permanent Employees, the Payroll
15 Taxes are paid to various Taxing Authorities in accordance with the Internal Revenue Code and
16 applicable state law. TelexFree Massachusetts's average weekly total obligation for Payroll
17 Taxes is approximately \$3,900.00. The Debtors seek authority to honor, process and pay the
18 prepetition obligations with respect to the Payroll Taxes.

19 b. Vacation Time.

20 57. Full-time employees that have worked for the Debtors at least one year may
21 receive five (5) paid personal time off days to be used for vacation ("**PTO Days**"). Upon
22 termination from TelexFree Massachusetts, employees forfeit all unused PTO Days. As of the
23 Petition Date, the Debtors estimate that they owe approximately \$8,450.00 for accrued and
24 unused PTO Days. By this Motion, the Debtors request authority to continue to pay the PTO
25 Days and any other paid-time off obligations, to the extent required by law, and to honor all
26 prepetition obligations related thereto.

27 c. The Independent Contractors.

28 58. In addition, TelexFree Massachusetts engages four (4) independent contractors

1 (the “**Independent Contractors**”). One (1) of the Independent Contractors provides product
 2 development services and three (3) provide customer service support to TelexFree
 3 Massachusetts’s independent representatives and customers. The Independent Contractors are
 4 engaged on an hourly or salary basis. The Independent Contractors are paid on a weekly basis in
 5 the aggregate amount of approximately \$3,054.73. As of the Petition Date, the aggregate amount
 6 outstanding to the Independent Contractors totals approximately \$7,500.00² (the “**Independent**
 7 **Contractor Fees**”).

8 d. The Contracting Agencies.

9 59. TelexFree Massachusetts also engages contracting agencies that engage other
 10 independent contractors to provide IT and customer service support to TelexFree
 11 Massachusetts’s independent representatives and customers. A list of the contracting agencies
 12 (the “**Contracting Agencies**”), the labor provided, and the estimated monthly cost, is attached
 13 the Employee Wage Motion as Exhibit A. The Contracting Agencies are paid on a monthly
 14 basis. As of the Petition Date, the aggregate amount outstanding to the Contracting Agencies
 15 totals approximately \$111,500.00 (the “**Contracting Agencies’ Fees**”).

16 C. Emergency Motion of the Debtors for Entry of an Order Authorizing the Debtors to
 17 Honor Credit Card Transactions, Chargebacks, Discounts and Commissions in the
 18 Ordinary Course of Business.

19 60. In the normal course of business, approximately twenty-five percent (25%) of the
 20 Debtors’ total sales are settled through credit card transactions. During the post-petition period,
 21 the Debtors expect to continue accepting credit cards as a source of payments for purchases in
 22 the normal course of their day-to-day operations. By this motion (the “**Credit Card Motion**”),
 23 the Debtors seek entry of an order pursuant to sections 105(a), 363 and 553 of the Bankruptcy
 24 Code authorizing the Debtors to continue to honor certain credit card transactions, chargebacks,
 25 discounts and related expenses.

26 1. Debtors’ Credit Card Processors.

27 61. The Debtors have approximately four (4) separate agreements with a number of

28 ² This figure includes amounts owed for services performed during the week ending April 11, 2014, as well as checks that have not yet been cashed.

1 credit card processors, including, but not limited to, Propay Inc., Phoenix Payments LLC, Allied
2 Wallet and Vantage Payments (collectively, the “**Debtor Credit Card Processors**”), governing
3 the terms and conditions of credit card payments, discounts, and commissions, all as more
4 specifically described herein (collectively, the “**Debtor Agreements**”).

5 62. The Debtor Credit Card Processors provide the Debtors with credit card
6 transaction processing services for all credit cards accepted by the Debtors, including Visa,
7 Mastercard and American Express. Pursuant to the Debtor Agreements, subject to certain fees,
8 commissions, and other costs of administration in processing credit card transactions, the
9 Debtors are permitted to accept the credit cards for purchases in connection with the Debtors’
10 businesses, including access to the Debtors’ websites.

11 63. Honoring the credit card charges and the commensurate expenses incurred
12 pursuant to the Debtor Agreements in the ordinary course of the Debtors’ business operations is
13 absolutely necessary in the website-based business context. Without the ability to assure the
14 Debtor Credit Card Processors that transactions will continue to occur in the ordinary course
15 after the Petition Date, the Debtor Credit Card Processors may attempt to adjust the reserve
16 amounts and the timing of payments to the Debtors. Furthermore, under sections 363 and 553 of
17 the Bankruptcy Code, the Debtor Credit Card Processors are likely to seek a setoff of all such
18 charges against funds currently in their possession that they would otherwise remit timely to the
19 Debtors, rather than maintain the *status quo* and continue normal operations during these
20 Chapter 11 Cases.

21 64. As a majority of the Debtors’ revenues are generated from website-based
22 purchases, the use of credit cards is inextricably linked to the Debtors’ ability to continue normal
23 postpetition operations. Even a slight delay in implementing the relief requested herein could
24 cause the Debtor Credit Card Processors to refuse to do business with the Debtors on the terms
25 and basis of their ordinary course relationships, which could have a significant and material
26 adverse affect on the Debtors’ business as the Debtors would be forced to identify and obtain
27 new credit card processors.

28 65. The relief requested in the Credit Card Motion with respect to authorizing the

1 Debtors to honor credit card charge backs, commissions and discounts in the ordinary course of
2 business, including any pre-petition amounts that may currently be outstanding, is necessary to
3 ensure and maintain credit card processing and the uninterrupted flow of revenue.

4 **2. Non-Debtor Credit Card Processors.**

5 66. In addition to the Debtors' Agreements, certain of the Debtors' non-debtor
6 affiliates (the "Non-Debtor Affiliates") have agreements with Argus Payments, a credit card
7 processor (the "Non-Debtor Credit Card Processors", and together with the Debtor Credit
8 Card Processors, the "Credit Card Processors"), governing the terms and conditions of credit
9 card payments, discounts, and commissions, as more specifically described herein (the "Non-
10 Debtor Agreements"). Like the Debtor Credit Card Processors, pursuant to the Non-Debtor
11 Agreements, subject to certain fees, commissions, and other costs of administration in processing
12 credit card transactions, the Debtors are permitted to accept the credit cards for purchases in
13 connection with the Debtors' businesses, including the Debtors' websites.

14 67. The Non-Debtor Credit Card Processors process credit card transactions,
15 chargebacks, discounts, and commissions resulting from purchases made from the Debtors'
16 websites and other businesses. The resulting funds are then reconciled by the Non-Debtor
17 Affiliates, which are then immediately transferred to the Debtors. Accordingly, as credit card
18 transactions, chargebacks, discounts, and commissions are processed by the Non-Debtor Credit
19 Card Processors, it is absolutely necessary to the Debtors' ongoing business operations that the
20 Non-Debtor Affiliates and the Non-Debtor Credit Card Processors be permitted to continue to
21 operate pursuant to the Non-Debtor Agreements in the ordinary course of business.

22 68. Non-Debtor Credit Card Processors may ultimately continue to operate in the
23 ordinary course, as they are unaffected by these Chapter 11 Cases and, thus, do not require any
24 additional approval to conduct business as normal or require additional reserves. However, out
25 of an abundance of caution, the Debtors seek entry of an order authorizing the Debtors, in their
26 sole discretion, to continue honoring, in the ordinary course, any terms relating to the Non-
27 Debtor Credit Card Agreements and any credit card transactions, chargebacks, discounts,

28

1 commissions and related expenses resulting from the Non-Debtor Agreements with the Non-
2 Debtor Credit Card Processors.

3 **D. Emergency Motion of the Debtors Pursuant to Section 105(a) of the Bankruptcy**
4 **Code, Bankruptcy Rules 1007, 2002(l), 2002(m) and 9007, Local Rule 2002 for Entry**
5 **of an Order Approving Notice Procedures.**

6 69. By this motion (the "Notice Motion"), the Debtors seek entry of an order
7 establishing notice procedures and establishing a master service list (the "Master Service List").

8 70. TelexFree Nevada entered into various enrollment agreements (the "Contracts")
9 with over 700,000 parties allowing these parties to utilize and/or promote the Company's
10 services. The Company can initiate communication with the counterparties to Contracts (the
11 "Counterparties") in two ways. First, the Company can email the Counterparties directly to the
12 email addresses provided by the Counterparties. Pursuant to the Contracts, each Counterparty
13 agrees that the Company can contact the Counterparties via email and that such email address is
14 "valid for legal purposes." Second, the Company provides a virtual environment (the "Back
15 Office") which Counterparties use to access certain of the Company's services and obtain
16 information with respect to the counterparty's individual account. Each Counterparty has a
17 unique user name and password to access the Back Office and in the ordinary course of business
18 the Company regularly posts messages to the Back Office.

19 71. With such a large number of Counterparties, the service of pleadings on them via
20 traditional means would prove expensive, inefficient, and unduly burdensome. The Debtors
21 therefore propose that, when the Debtors are obligated to notice the Counterparties, the Debtors
22 shall be authorized to serve the Counterparties via (a) electronic mail at the email address
23 provided to the Company and/or (b) utilizing the messaging services provided by the Back
24 Office, as described herein.

25 72. The Debtors believe that the notice procedures set forth in the Notice Motion are
26 reasonably calculated to ensure that parties in interest receive notice of pleadings and are
27 appropriate in the circumstances of these Chapter 11 Cases.

28 ...

...

1 **E. Emergency Motion of the Debtors For Entry of Interim and Final Orders Pursuant**
2 **to Section 105(a) and 366 of the Bankruptcy Code (I) Prohibiting Utilities from**
3 **Altering, Refusing, or Discontinuing Service, (II) Deeming Utilities Adequately**
4 **Assured of Future Performance, and (III) Establishing Procedures for Determining**
5 **Adequate Assurance of Payment.**

6 73. In connection with the operation of their businesses and management of their
7 properties, the Debtors obtain telephone services and internet provider services (collectively, the
8 "Utility Services") from certain utility companies (collectively, the "Utility Providers").

9 74. In the ordinary course of business, the Debtors regularly incur utility expenses for
10 Utility Services provided by the Utility Providers. The Debtors have a long and established
11 payment history with the Utility Providers. The Debtors' aggregate average monthly cost for
12 utility services is approximately \$18,500.

13 75. Uninterrupted utility services are essential to the preservation of the Debtors'
14 estates and assets, and therefore, to the success of these Chapter 11 Cases. Should a Utility
15 Provider refuse or discontinue service, even for a brief period, the Debtors' ability to preserve
16 and maximize the value of their estates could be severely and irreparably harmed. For example,
17 a lack of telephonic or internet services would render the Debtors' services inoperable,
18 effectively corrupting the good-will of the Debtors' businesses with end users of the Debtors'
19 products. Such a result could jeopardize the Debtors' reorganization efforts and ultimately,
20 value and creditor recoveries. It is therefore critical that utility services continue uninterrupted.

21 **F. Emergency Motion of the Debtors For Entry an Order (I) Authorizing the Debtors**
22 **to Pay Prepetition Income, Franchise and Similar Taxes and Regulatory Fees in the**
23 **Ordinary Course of Business, and (II) Authorizing Banks and Financial Institutions**
24 **to Honor and Process Checks and Transfers Related Thereto.**

25 76. In connection with the normal operation of their business, the Debtors pay certain
26 income, franchise and similar taxes (collectively, the "Taxes") to federal and state taxing
27 authorities (collectively, the "Taxing Authorities") and pay various regulatory fees (the
28 "Regulatory Fees," and together with Taxes, the "Taxes and Fees") to certain governmental
agencies and authorities (together with the Taxing Authorities, the "Taxing and Regulatory
Authorities"). These Taxes and Fees include, without limitation, the following:

...

1 **1. Universal Service Administration Company Support Mechanism Charges.**

2 77. The Debtors pay monthly contributions to the Universal Service Administration
3 Company (the "USAC") which is a non-for-profit corporation designated by the Federal
4 Communications Commission (the "FCC") as the administrator of the "Universal Service Fund,"
5 created by the FCC to accomplish the goals mandated by the Telecommunications Act of 1996,
6 Pub. L. No. 104-104, 110 Stat. 56 (Feb. 8, 1996). The USAC receives contributions from all
7 companies providing Voice over Internet Protocol services. The monthly contributions are based
8 on projected quarterly earnings. The Debtors estimate that the contribution due for the period
9 ending on April 14, 2014 will be approximately \$23,404.

10 **2. Income/Franchise Taxes.**

11 78. The Debtors pay income/franchise taxes (the "Income/Franchise Taxes") to
12 applicable Taxing Authorities in many U.S. jurisdictions. The Income/Franchise Taxes are
13 established by the Debtors' income tax base, the capital employed by the Debtors' operations
14 and/or a variety of other factors. Timely payment of the Income/Franchise Taxes allows the
15 Debtors to continue operating their business in such jurisdictions. The Debtors typically pay the
16 Income/Franchise Taxes on a quarterly or annual basis, and are currently obligated to pay certain
17 Income/Franchise Taxes post-petition based upon amounts that accrued prepetition. The Debtors
18 estimate that the aggregate approximate amount of \$97,306 was accrued in respect of
19 Income/Franchise Taxes as of the Petition Date.

20 79. The Debtors seek authority to pay prepetition Taxes and Fees accrued for the
21 benefit of the Taxing and Regulatory Authorities in an aggregate amount not to exceed \$200,000.

22 **G. Emergency Motion of the Debtors For Entry an Order Authorizing the Debtors to**
23 **Honor Prepetition Prepaid Voice Over Internet Protocol Telephone Minutes.**

24 80. As described above, the Debtors distribute a VoIP product, 99TelexFree, which
25 allows a subscriber to make unlimited international calls to over forty countries. A subscriber
26 pays a monthly fee in order to obtain a month of service from the Debtors. Prior to the Petition
27 Date the Debtors sold their VoIP services to a number of customers who anticipated utilizing the
28 Debtors' services for the month following their purchase (the "Prepaid VoIP Minutes"). The

1 Debtors failure to honor the Prepaid VoIP Minutes would severely and irreparably harm the
2 Debtors' customer relations, as many of the Debtors' customers would be deprived of the
3 services they purchased.

4 81. The success and viability of the Debtors' business and the Debtors' ability to
5 successfully maximize value for the stakeholders in these cases are dependent primarily upon the
6 patronage and loyalty of the customers who purchase the VoIP product. The ability to honor the
7 Prepaid VoIP Minutes is fundamental to the continued success of the Debtors' business; without
8 the ability to honor the Prepaid VoIP Minutes the Debtors business will be irreparably harmed.
9 Moreover, honoring the Prepaid VoIP Minutes will preserve customer satisfaction; this will
10 assist the Debtors in retaining current customers and assist the Debtors in their reorganizational
11 efforts. Honoring the Prepaid VoIP Minutes is critical to the continuation of customer loyalty
12 and satisfaction, whereas failure to honor the Prepaid VoIP Minutes would severely and
13 irreparably impair the Debtors' customer relations and cause a severe loss in customer
14 confidence. Accordingly, the Debtors submit that they should be authorized to honor the Prepaid
15 VoIP Minutes.

16 82. The Debtors seek entry of an order authorizing the Debtors to honor the Prepaid
17 VoIP Minutes purchased by the Debtors' customers prepetition.

18 **H. Emergency Motion of the Debtors For Entry an Order Authorizing the Debtors to**
19 **Reject Certain Executory Contracts *Nunc Pro Tunc* as of the Petition Date.**

20 83. By this motion (the "**Rejection Motion**"), the Debtors request entry of an order,
21 authorizing and approving the Debtors' rejection of all of agreements between the Debtors and
22 the Promoters under both the Original Comp Plan and the Revised Comp Plan (collectively, the
23 "**Rejected Contracts**").

24 84. As of the Petition Date, the Debtors and the Promoters each had material
25 unperformed obligations pursuant to the Rejected Contracts. The Rejected Contracts require the
26 Promoters to comply with certain provisions to act in accordance with the agreement including,
27 among other things: (i) strictly adhering to the rules and schedules established by the Debtors'
28 system, (ii) indemnifying the Company for actions arising from the Promoters use of the

1 Debtors' systems, (iii) agreeing to receive messages in their inbox maintained on the Debtors'
2 electronic messaging systems, (iv) respecting and complying with all local, municipal, state,
3 federal, and international laws and regulations, (v) refraining from soliciting other Promoters to
4 participate in other multilevel marketing businesses, (vi) providing true, accurate and complete
5 information and ensuring that information is current and accurate, (vii) refraining from engaging
6 in other multilevel marketing activities similar to the services provided by the Debtors, and (viii)
7 protecting the intellectual property of the Debtors. In addition, the Debtors have material on-
8 going obligations pursuant to the Rejected Contracts, including, among other things, (i)
9 maintaining the virtual environment utilized by the Promoters and (ii) paying certain
10 compensation, bonuses and incentives to the Promoters for certain actions taken by the
11 Promoters which are authorized by the Agreements.

12 85. Because neither of the Pre-Petition Comp Plans meets the needs of the Debtors
13 businesses. The Debtors intend to discontinue and reject the Pre-Petition Comp Plans and
14 quantify the legitimate claims under those Plans. Once the legitimate claims have been
15 quantified and the Company has developed a new compensation program, the Debtors hope to
16 reorganize and satisfy the claims against them.

17 86. As a result of the circumstances that led to the filing of these Chapter 11 Cases, as
18 set forth herein, the Debtors have determined that it is imperative that they reject the Rejected
19 Contracts as of the Petition Date so as to quantify claims thereunder and work on putting a new
20 program in place. The Debtors believe that continuing to accrue claims under the Rejected
21 Contracts will not offer additional value to their estates but would instead result in the further
22 degradation of the Debtors' cash reserves. Therefore, in the exercise of their business judgment,
23 the Debtors have determined that the Rejected Contracts are appropriate for immediate rejection..

24 **I. Emergency Motion of the Debtors For Entry an Order Designating and Approving**
25 **the Form and Manner of Notice of the Motion of the Debtors for Entry of an Order**
26 **Authorizing the Debtors to Reject Certain Executory Contracts *Nunc Pro Tunc* as of**
27 **the Petition Date.**

28 87. By this motion (the "Rejection Notice Motion"), the Debtors seek approval of
procedures to provide notice to the Promoters of the hearing on, and objection deadline for, the

1 Rejection Motion.

2 88. The Debtors believe that providing notice as set forth in the Rejection Notice
3 Motion is proper and sufficient under the existing circumstances.

4 89. For the reasons described herein and in the First Day Motions, I believe that the
5 prospect for achieving these objectives for the benefit of creditors and other stakeholders will be
6 substantially enhanced if this Bankruptcy Court grants the relief requested in each of the First
7 Day Motions and respectfully request the Bankruptcy Court to do so.

8 I declare, pursuant to 26 U.S.C. § 1746, under penalty of perjury, that the foregoing is
9 true and correct to the best of my information, knowledge and belief.

10 Dated: April 14, 2014

11
12 /s/ William H. Runge, III
13 William H. Runge III

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