

The Boston Globe

Former TelexFree executive gets six years for his role in \$3 billion scam



James Merrill was sentenced to six years in federal prison.

By **Beth Healy** GLOBE STAFF MARCH 22, 2017

WORCESTER — Former TelexFree Inc. chief executive James Merrill was sentenced Wednesday to six years in federal prison for his role in a \$3 billion pyramid scheme that prosecutors say defrauded nearly 2 million investors worldwide, including 41,000 in Massachusetts.

More than 50 people filled a Worcester courtroom to hear Judge Timothy Hillman hand down the sentence, which was far longer than the one-year term Merrill's lawyers wanted but less severe than [the 10 years prosecutors had sought](#).

Merrill, 54, whose wife, children, and friends were in court, apologized to his victims before he was sentenced. "It's awful and I don't have words I can give these people for what they've suffered," he said. "I'm sorry for this whole disaster."

During a 3½-hour hearing, Merrill's lawyer tried to convince Hillman that his client was not the mastermind of the largest pyramid scheme ever pursued by the Department of Justice.

In Massachusetts alone, prosecutors said, victims lost \$120 million. Immigrants in Framingham, Lawrence, and Chelsea were particularly hard hit, as many low-income workers fell for TelexFree's promises of wealth and success.

Prosecutors said Merrill's business partner, Carlos Wanzeler — now a fugitive in Brazil — was the “prime mover” in the criminal enterprise. But they maintain Merrill did not do enough to stop it, nor did he report to authorities the fraud as it spread at a viral pace over the Internet and through personal recommendations.

“He didn't do the two things he could've done — tell someone or leave. Walk out,” prosecutor Andrew Lelling said.

At one point, Merrill's lawyer, Robert Goldstein, suggested some participants in TelexFree knew it was a pyramid scheme — a setup in which money from new investors is used to pay off those who invested earlier. But the judge, unmoved, asked whether Merrill was backing away from his October guilty plea, in which he accepted responsibility for his role. Goldstein said that was not his intention.

Several victims offered statements in court, sometimes tearfully, detailing how they had doubted TelexFree's promise of easy money, but were persuaded to put in money after studying the company's website, its filings with the state of Massachusetts, and Merrill's biography as chief executive.

One man, Fernando Lemus, said when a friend told him about TelexFree, it sounded too good to be true: If he invested \$1,425, he was told, he would receive payments of \$100 a week. But after watching his friend earn profits, Lemus decided to invest \$5,700, savings he and his wife had set aside to help them buy a house. Lemus said he lost it all, and regrets having asked his son to invest as well.

“The negative impact that this man, this company, has had on my community is huge,” he said.

Gladys Vega, executive director of the nonprofit Chelsea Collaborative, said TelexFree has been devastating to working immigrants. “This man took people's dreams away,” she said, leaving some people sleeping on couches while he has been allowed to stay with his family for nearly three years. Facing Merrill directly, she said, “You should be incarcerated for life.”

TelexFree was nominally a seller of cheap Internet phone service, a business Merrill said he had intended to be a legitimate enterprise. The company declared bankruptcy in April 2014, and federal authorities raided its Marlborough headquarters.

Wanzeler fled the country for his native Brazil, where he and another TelexFree executive are under indictment.

Wanzeler declined to comment, through a lawyer.

Merrill was arrested that May and has been out on bail since June 2014, with a curfew and a GPS tracking device. Judge Hillman on Wednesday ordered Merrill to surrender to authorities by May 15 to serve his prison term.

Merrill's lawyer, in a statement, said, “The Merrills were hoping for a more lenient sentence, considering the countless good deeds by Jim over the course of his life,” but that the family understood “the court faced a very difficult decision when confronted with the government's billion-dollar allegation and emotional victim testimony.”

The sentencing will set in motion a process through which the government is set to release to the bankruptcy trustee about \$167 million in assets seized from the company and its principals. The trustee is processing tens of thousands of claims from people who lost money.