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INDEX OF EXHIBITS

United States v. Thomas Mario Costanzo

CR-17-585-01-PHX-GMS

Exhibit A Filed Under Seal

Exhibit B IRS Operational Plan, Nov. 21, 2015 (Redacted)

Exhibit C IRS Memorandum of Activity, Nov. 21, 2016

Exhibit D IRS Memorandum of Activity, March 8, 2016 (Redacted)

Exhibit E Filed Under Seal

Exhibit F USAO Offense Level Computation

EXHIBIT

B

United States Treasury Department
Internal Revenue Service, Criminal Investigation

Operational Plan

Case Information		
Investigation #:	[REDACTED]	Date(s) of Activity: November 21 st , 2015
Investigation Name:	Thomas Costanzo	
Objective and Type of Activity:	Arrest Warrant -	
	Search Warrant -	
	Seizure Warrant -	
	Undercover Operation – The objective is for the UCA to attend a bitcoin meetup and gain intel regarding potential individuals operating as bitcoin exchangers, namely Costanzo’s associate Peter Steinmetz. Secondly, the objective is to determine is to conduct an additional bitcoin transaction with Costanzo or his associate, Peter Steinmetz.	
	Other -	
Target Location/Description/Time: November 21 st , 2015; 4:00pm AT Oasis Coffee and Tea; 4613 E Thomas Rd, Phoenix, AZ 85018 [REDACTED]		
Operational Team Leader		
Name:	Don Ellsworth	Location During Operation: [REDACTED]
Contact Info:	Cell: [REDACTED]	
Case Agent		
Name:	Don Ellsworth	Location During Operation: [REDACTED]
Contact Info:	Cell: [REDACTED]	
[REDACTED]		
Target Information		
Name	Identifiers	Criminal History
Thomas Costanzo	DOB 160-175lbs – 50 y/o; 5'6 to 5'9;	See below

United States Treasury Department
Internal Revenue Service, Criminal Investigation

Operational Plan

Peter Steinmetz	DOB 175lbs	- 56 y/o; 5'9 to 5'11 See below

United States Treasury Department
 Internal Revenue Service, Criminal Investigation

Operational Plan

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Subject Vehicle(s)			
Year	Make/Model	Color	License Plate
1999	Saturn	Dark Green/Grey	
2004	Porsche	Yellow/orange	

Places Frequented by Subject(s)	
Business Name or Residence	Address
Residence of Girlfriend (Mary Jean Varnas)	

Background of Investigation

Bitcoin exchangers advertise their services on the website localbitcoins.com. They advertise their

United States Treasury Department
Internal Revenue Service, Criminal Investigation

Operational Plan

exchange rates and the area of the United States they service. Morpheus Titania is an on-line identity who has been identified as being a bitcoin exchanger servicing the Phoenix, Arizona area. Morpheus Titania advertises he or she will convert bitcoin to US Currency or US Currency to bitcoin. An individual who conducts these financial transactions with Morpheus Titania, or other exchangers like him, would remain anonymous.

A Group 2 undercover operation has been approved to meet with Costanzo and his associates for the purpose of exchanging cash for bitcoins and gather evidence against Costanzo and his associates.

It is believed that bitcoin exchangers are acting as unlicensed money remitters, failing to file Currency Transaction Reports (CTR) and due to the nature of criminal activity on the Dark Net, are engaging in money laundering transactions. These actions would be in violation of Title 18 U.S.C. Section 1956, 1957 and 1960 and Title 31 U.S.C. Section 5322. In addition, it is believed that bitcoin exchangers are not reporting income, in violation of Title 26, U.S.C Section 7201.

Objectives and Plan of Action

It is has been determined that Steinmetz is an co-organizer of a bitcoin meetup in the Phoenix Metro Area and there is a meetup scheduled for Saturday, November 21st, 2015. The UCA has been a member of the meetup.com site and has already posted online that he will be there. The plan of action for this operation is for the UCA to attend bitcoin meetup scheduled for November 21, 2015.

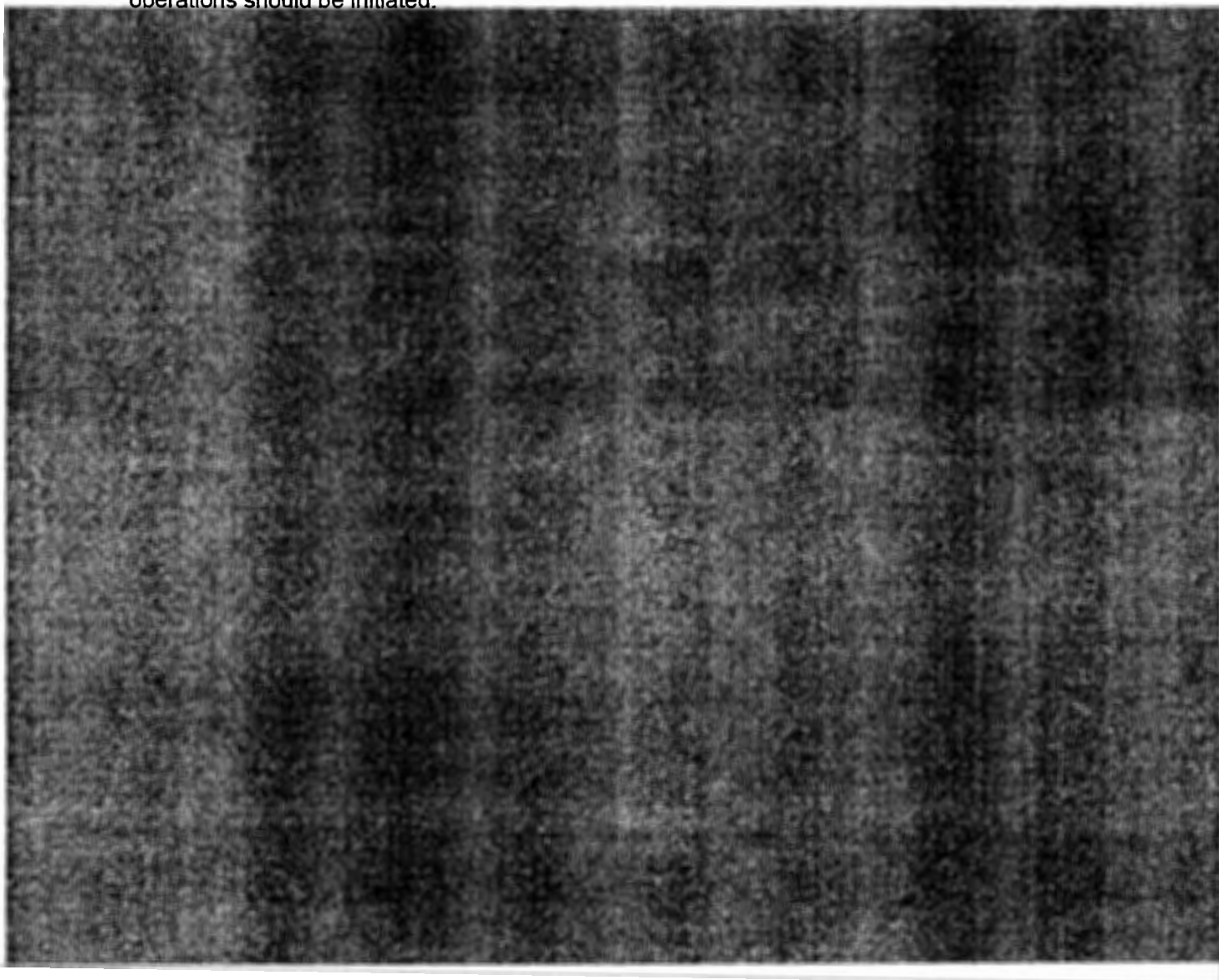
The objective of this operation are as follows:

1. Identify other individuals associated and unassociated with Costanzo, namely Steinmetz, willing to conduct bitcoin exchange services.
2. To establish if Steinmetz and/or other individuals at the meetup have knowledge of CTRs and CTR filing requirements.
3. To obtain information, to the extent possible, about Steinmetz's and/or other individuals at the meetup, about bitcoin operations and any other legal and illegal activities Costanzo, Steinmetz, and/or others may be involved with.
4. Determine if Costanzo, Steinmetz, and/or others are willing to conduct bitcoin transactions knowing that the proceeds are from an SUA.
5. Determine if Costanzo, Steinmetz and/or others are willing to conduct bitcoin transactions in excess of \$10,000.

United States Treasury Department
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Operational Plan

-
6. If it permits, exchange cash for bitcoin with either Costanzo or Steinmetz.
 7. To obtain sufficient information to determine if follow up LUCs, Group I, or Group II undercover operations should be initiated.



EXHIBIT

C

**Internal Revenue Service
Criminal Investigation**



Memorandum of Activity

In Re: THOMAS COSTANZO
aka MORPHEUS TITANIA
Investigation #: 1000270727
Date: 11/21/2015
Participant(s): [REDACTED]

Locations: Oasis Coffee & Tea
4613 E Thomas Rd
Phoenix, AZ

On November 21, 2015, I engaged in an undercover activity while performing duties in an undercover role pursuant to an approved Group 2 Undercover Operation. The activity is summarized below.

At approximately 3:00 PM (MST), I telephoned MORPHEUS TITANIA (known to IRS-CI as THOMAS COSTANZO) and advised him that I needed to purchase \$20,000 in bitcoins (BTC). COSTANZO replied that he was not sure if he could come up with that much in BTC right away but will see what he can do. COSTANZO agreed to meet with me at the Oasis Coffee & Tea during the local BitCoin Meetup Group event.

At approximately 4:10 PM (MST), I met with COSTANZO and PETER STEINMETZ, MD at Oasis Coffee & Tea in Phoenix, AZ area. The meeting was organized and scheduled through a local BitCoin Meetup group. (www.meetup.com/Arizona-Bitcoin-Meetup/) There were three other male individuals present at the meeting.

I attempted to buy bitcoins (BTC) from COSTANZO, however he said that he did not have the BTC yet available as he was in the process of purchasing them and was waiting for the confirmations. COSTANZO was talking on his cell phone and appeared to have been conducting some type of a transaction. I informed COSTANZO earlier that I need to purchase up to \$20,000.00 of BTC.

COSTANZO stated that he had no problem if I purchased BTC from PETER STEINMETZ. I approached STEINMETZ to purchase BTC but he was in the process of selling BTC to an unidentified male and I waited until the transaction was completed. I purchased 5.849 in BTC for \$2,000.00 from STEINMETZ; this was the most he had available to sell today. STEINMETZ indicated that he should have more BTC available for purchase in a near future. STEINMETZ said that I could call him to discuss purchasing of BTC. Transaction was conducted using Mycelium BTC wallet on my smartphone.

After I finished BTC purchase and the transaction was confirmed I approached COSTANZO to purchase additional BTC. COSTANZO stated that he has several BTC purchase transactions pending and should be able to sell me BTC but not sure yet of how much in total.

Over approximately next hour, I purchased a total of \$11,700.00 in BTC from COSTANZO in three separate transactions as follows.

I purchased 4.2283 in BTC for \$1,500.00.

I purchased 22.959 in BTC for \$8,200.00.

I purchased 5.79356 in BTC for \$2,000.00.

The last purchase for \$2,000.00 was conducted in three separate transfers to my Mycelium wallet in the following increments of BTC; 0.15586, 1.6857 and 3.952.

After I received confirmations for all BTC transactions I concluded the meeting with COSTANZO and left the premises.

See attached transaction activity report for details of above transactions and BTC addresses.

Refer to the recording for details of the conversations referenced in this memorandum.

Transaction Number	Party	Currency Amount	Input Address	Input BTC Amount	Received BitCoin	Output Address
1	STEINMETZ	\$ 2,000.00	33LgMWDmfdXJd98EanqnFh8zDKmjcWZXW	5.849	5.849	1CVpX33pvtbZ2DYewxhB66pVNHJ8eT9ZTn
2	COSTANZO	\$ 1,500.00	13eBNMf2EhWwdeTrC1ogiVj5JEx9IRHM	4.2283	4.2283	1FFRb3vKHzBL24a4992bRCM6uZAUtQkvQ
3	COSTANZO	\$ 8,200.00	1JD1k5phuN7MDKcksypMgGKEfC75bMuEUA 1JD1k5phuN7MDKcksypMgGKEfC75bMuEUA	4.5708 18.3886	22.959	13pqWdofrevjm8f9mvK94agyDpyqKhHIEo
4	COSTANZO	\$ 2,000.00	1Fq22FiRvA8pXzDdiQwkc7nFYbAywKSQf 1ZPzfcCaKJdrA7e1Z3xney4omY9XqT6BE 1786sHkczN3ExE3MasD1ZyWHMIZuy9NEAw 1CTAd44NAxn76DFPehQLQmi1S7ZF47M 14TyY8CnY7ioTfwU6XKzGThNMy4pZ98Hma 14iCTyyGhwZ1KEPrXJGkppvpZNMrrNIQtw 1HFyreF9dRaCd4cGVVUwoP5eEpVsYpvQHE 14er5M8igmzk1zFVyDbYnMSR9zoDT58XqA 1Fr1VdMfQ4HTKpZvdd5nFSxBjHRXEazp4X 1DtrTBnhsdxelbF8xXGDePyFyIEZGRJjix 16kEHyYRNTD94mq3qeU744w4JVvW23kphZ	0.0815776 0.10000655 0.9 0.1109 0.296 0.41 0.09377347 0.00225569 3.68977502 0.14148953 0.02560067	0.15586 1.6857 3.952	14SowCaaqWspQSS7YkNXRCagdv83yE3uwl. 1A5cbC6lVpp2hNF2Vl6PohDuXhy6HBjJS 1EgzDlVJqGzsupFunx6A7zu62QPz3zS7x

EXHIBIT

D



DEPARTMENT OF THE TREASURY
Internal Revenue Service
Criminal Investigation

Memorandum of Activity

Investigation #: 1000270727 Location: Steinmetz residence

Investigation Name: Costanzo, Thomas
Date: March 8th 2016
Time: Approx. 1:05pm to 2:20pm
Participant(s): Peter STEINMETZ, Subject
[Redacted], Special Agent- UCA1

On the above date and at the above time, UCA1 met with STEINMETZ for the purpose of exchanging cash for bitcoin. UCA1 had previously called STEINMETZ on February 29th and asked STEINMETZ if he would be able to exchange approximately \$20,000 for bitcoin. STEINMETZ told him that was over the minimum and he could do it for a fee of 5 percent. STEINMETZ asked UCA1 to just meet at his house since he has a money counter there. The following took place on March 8th and was recorded and can be referenced.

1. UCA1 arrived STEINMETZ's residence at approximately 9:30AM.
2. STEINMETZ ushered UCA1 into the garage to begin the exchange.
3. UCA1 told STEINMETZ the money was from selling drugs. STEINMETZ refused to do the trade and explained that since he now knew it was drug proceeds, he couldn't do it because it would be money laundering under federal laws. STEINMETZ told UCA1 that there was a bitcoin meetup event that night and referred to him a name that he may be able to do the trade with.
4. The meeting ended and UCA1 left

I certify this is a truthful recollection of the events taken place between STEINMETZ and UCA1 on March 8th, 2016.


Don Ellsworth
Special Agent

EXHIBIT

F

Offense Level Computation

1. §2S1.1(a)(2) – **Base Offense Level = 8** plus the number of offense levels from the table in S2B1.1 corresponding to the value of the laundered funds.
2. §2B1.1(b)(1)(F) – Loss amount exceeded \$150,000, **add 10 levels.**
3. §2S1.1(b)(1) – The defendant knew or believed that any of the laundered funds were the proceeds of, or were intended to promote an offense involving the manufacture, importation, or distribution of a controlled substance or listed chemical, **add 6 levels.**
4. §2S1.1(b)(2)(B) – The defendant was convicted under 18 U.S.C. § 1956, **add 2 levels.**
5. §2S1.1(b)(2)(C) – The defendant was in the business of laundering funds, **add 4 levels.**
6. §2S1.1(b)(3) – The offense involved sophisticated laundering, **add 2 levels.**
7. **Adjusted Offense Level: 32**
8. **Total Offense Level: 32**

Please let me know if you have any questions, or would like any further explanation on this computation.