

United States District Court

for the
Western District of New York

United States of America

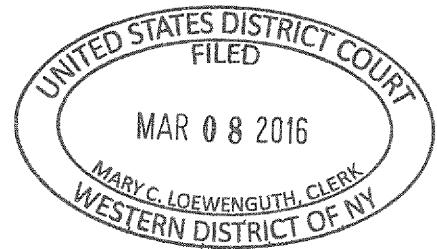
v.

Case No. 16-M- 5002

Zhe Wang and Kevin Szura

Defendants

CRIMINAL COMPLAINT



I, the complainant in this case, state that the following is true to the best of my knowledge and belief:

Count 1

(Conspiracy to Distribute Controlled Substances)

Beginning in or before March 2015, the exact date being unknown, and continuing until on or about March 7, 2016, in the Western District of New York, and elsewhere, the defendants, ZHE WANG and KEVIN SZURA, did knowingly, willfully, and unlawfully combine, conspire, and agree together and with others, known and unknown, to commit the following offenses, that is, to possess with the intent to distribute, and to distribute, Schedule I and II controlled substances, and alprazolam, a Schedule IV controlled substance, in violation of Title 21, United States Code, Sections 841(a)(1), 841(b)(1)(C), and 841(b)(2).

All in violation of Title 21, United States Code, Section 846.

Count 2

(Money Laundering Conspiracy)

Beginning in or before March 2015, the exact date being unknown, and continuing until on or about March 7, 2016, in the Western District of New York, and elsewhere, the defendants, ZHE WANG and KEVIN SZURA, did knowingly, willfully, and unlawfully combine, conspire, and agree together and with others, known and unknown, to commit the following offenses, that is:

- a. to knowingly conduct financial transactions affecting interstate and foreign commerce, that is, the purchase, with United States currency, of bitcoins over and through the use of the Internet, which involved the proceeds of specified unlawful activity, that is, the unlawful distribution of controlled substances, and conspiracy to

do so, in violation of Title 21, United States Code, Sections 841(a)(1) and 846, with the intent to promote the carrying on of such specified unlawful activity, and while knowing that the property involved in the financial transactions, that is, the United States currency, represented the proceeds of some form of unlawful activity, in violation of Title 18, United States Code, Section 1956(a)(1)(A)(i); and

b. to knowingly engage in a monetary transaction within the United States, that is, the transfer and exchange of United States currency for bitcoins over and through the use of the Internet, affecting interstate and foreign commerce, in criminally derived property of a value greater than \$10,000, such property, that is, the United States currency, having been derived from specified unlawful activity, that is, the unlawful distribution of controlled substances, and conspiracy to do so, in violation of Title 21, United States Code, Sections 841(a)(1) and 846; all in violation of Title 18, United States Code, Section 1957(a).

All in violation of Title 18, United States Code, Section 1956(h).

This Criminal Complaint is based on these facts:

- Continued on the attached sheet.



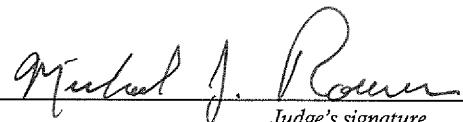
Complainant's signature

FRANCIS ZABAWA
SPECIAL AGENT
HOMELAND SECURITY INVESTIGATIONS

Printed name and title

Sworn to before me and signed in my presence.

Date: March 8, 2016



Judge's signature

City and State: Buffalo, New York

HONORABLE MICHAEL J. ROEMER
UNITED STATES MAGISTRATE JUDGE

Printed name and title

AFFIDAVIT IN SUPPORT OF CRIMINAL COMPLAINT

STATE OF NEW YORK)
COUNTY OF ERIE) SS:
CITY OF BUFFALO)

I, FRANCIS ZABAWA, being duly sworn, deposes and states as follows:

1. I have been employed as a Special Agent with Homeland Security Investigations (“HSI”), within the Department of Homeland Security (“DHS”) since October 2007. As a Special Agent, I am a federal law enforcement officer within the meaning of Rule 41(a) of the Federal Rules of Criminal Procedure, that is, an officer of the United States who is empowered by law to conduct investigations of, and to make arrests for, offenses enumerated in Title 21, United States Code, Section 841, et seq.

2. I have been employed as a Special Agent with HSI since July 2007. Prior to my appointment with HSI, I served as a Marine Interdiction Agent with the United States Customs and Border Protection (“CBP”) from June 2004 through July 2007. During my tenure with both HSI and CBP, I have participated in numerous narcotics investigations during the course of which I have conducted physical and wire surveillance, executed search warrants, and reviewed and analyzed recorded conversations and records of drug traffickers and money launderers. Through my training, education, and experience (including debriefing cooperating drug traffickers and money launderers, monitoring wiretapped conversations of drug traffickers and money launderers, and conducting surveillance on numerous occasions of individuals engaged in drug trafficking and money laundering), I

have become familiar with the manner in which illegal drugs are imported and distributed, the method of payment for such drugs, the various ways drug money is laundered, and the efforts of persons involved in such activities to avoid detection by law enforcement. My investigative experience detailed herein, as well as the experience of other law enforcement agents who are participating in this investigation, and information provided to me by cooperating sources, serve as the basis for the opinions and conclusions set forth herein.

3. I have personally participated in the drug trafficking and money laundering investigation set forth below. I am familiar with the facts and circumstances of the investigation through my personal participation, discussions with other agents of HSI and other law enforcement officials, interviews of witnesses, and my review of relevant records and reports. Unless otherwise noted, wherever in this affidavit I assert that a statement was made, the information was provided by an HSI agent, law enforcement officer, or witness who had either direct or hearsay knowledge of that statement, to whom I or others have spoken or whose reports I have read and reviewed. Such statements are among statements made by others and are stated in substance and in part unless otherwise indicated. Any interpretations or opinions rendered in this affidavit are based on my training and experience in the context of the facts of this investigation. Because this affidavit is submitted for the limited purpose of establishing probable cause for the offenses recited in the Criminal Complaint, it does not recite all evidence gathered thus far.

Overview

4. Through reviewing recorded communications and other investigative techniques, I learned that, between March 2015 and March 7, 2016, the defendants **ZHE WANG** and **KEVIN SZURA**, individually and together, have conducted and attempted to conduct financial transactions to purchase approximately \$74,000 in bitcoins on 17 occasions. The last two of these transactions occurred on February 29, 2016, and March 7, 2016, with an HSI undercover agent ("UCA-1"). These meetings revealed that WANG and SZURA were using bitcoins to buy Xanax pills, which contain alprazolam, a Schedule IV controlled substance, and selling them in bulk. These meetings also showed WANG and SZURA conspiring to purchase distribution quantities of "mollies" a/k/a MDMA a/k/a 3,4-methylenedioxymethamphetamine, a Schedule I controlled substance, from UCA-1.

Background of Bitcoin

5. Based on my experience in this investigation, I know the following about Bitcoin:

a. Bitcoin is a virtual currency, existing entirely on the Internet and not in any physical form. The currency is not issued by any government, bank, or company, but rather is generated and controlled automatically through computer software operation on a decentralized, "peer-to-peer"¹ network. Bitcoin transactions are recorded on the "blockchain." The blockchain is a shared public ledger on which the entire Bitcoin network

¹ Peer-to-peer (P2P) is a decentralized communications model in which each party has the same capabilities and either party can initiate a communication session. Unlike the client/server model, in which the client makes a service request and the server fulfills the request, the P2P network model allows each node to function as both a client and server.

relies. All confirmed transactions are included in the blockchain. This way, Bitcoin wallets can calculate their spendable balance and new transactions can be verified to be spending bitcoins that are actually owned by the spender. The integrity and the chronological order of the blockchain are enforced with cryptography.

b. Bitcoin mining is the process by which transactions are verified and added to the blockchain, and also the means through which new bitcoins are released. Individuals who run the mining software, competing against each other to set up each new block in the chain, are known as “miners.” Each new block currently releases 25 bitcoins to its miner.

c. To acquire bitcoins without mining, a user typically purchases them from a Bitcoin exchanger. Bitcoin exchangers typically accept payments of fiat currency (currency which derives its value from government regulation or law), or other convertible virtual currencies. A user will normally send or provide payment in the form of fiat or other convertible virtual currency to an exchanger, usually via wire transfer or the Automated Clearing House (an electronic network for financial transactions in the United States), for the corresponding number of bitcoins based on a floating exchange rate. The exchanger, often for a commission, will attempt to broker the purchase with another user on the exchange that is trying to sell bitcoins or sell the exchange’s own bitcoins.

d. In order for a user to acquire bitcoins, they must be sent to the user’s Bitcoin address. This address is an alphanumeric string whose use is somewhat analogous to a bank account number. The user can then conduct transactions with other Bitcoin users, by transferring bitcoins to their Bitcoin addresses, via the Internet.

e. Little to no personally identifiable information about the payer or payee is transmitted in a Bitcoin transaction. Only the Bitcoin addresses of the parties are needed for the transaction, which by themselves do not reveal any identifying information.

f. Bitcoin is not inherently illegal and has known legitimate uses, much like cash; bitcoins, however, are also used to facilitate illicit transactions and to launder criminal proceeds, given the ease with which they can be used anonymously, again like cash.

October 29, 2015 Seizure

6. I have learned that, on October 29, 2015, deputies from the Erie County Sheriff's Office and assisting law enforcement officers executed an Erie County Supreme Court search warrant at 72 Winspear Avenue, Buffalo, New York. Four individuals were arrested on state controlled substance charges, including WANG. In a bedroom believed to be WANG's, officers seized, among other items of evidentiary value, a cache estimated to contain approximately 2,500 bars of Xanax, some in various heat-sealed packages.

February 29, 2016 Transaction

7. Via text messaging, WANG and SZURA invited UCA-1 to a house at 43 Merrimac Street, Buffalo, New York. UCA-1 met them there on February 29, 2016. They each gave UCA-1 approximately \$10,800, for a total of \$21,675. They had UCA-1 transfer the full 46.2 bitcoins, however, only to a single Bitcoin address scanned from SZURA's cell phone. As WANG sniffed an unidentified white powder from a baggie, he and SZURA asked UCA-1 about buying 100 grams of "molly" from UCA-1 together. (In my training and experience, "molly" refers to the Schedule I controlled substance, 3,4-

methylene dioxyamphetamine, also known as MDMA, and 100 grams of the substance is consistent with distribution and not personal use.) UCA-1 asked whether they were paying for their molly with bitcoins, and WANG replied that they paid “straight cash.” Thus, UCA-1 asked them what they needed bitcoins for. SZURA replied, “bars.” WANG added, “Xanax.” They both replied that they sold Xanax for amounts in the “thousands.” They also said that their Xanax came from Canada. Additionally, WANG and SZURA discussed with UCA-1 one or more well-known dark web vendors of controlled substances, which typically only accept payment of virtual currency such as bitcoins, and prices of various controlled substances on the websites.

March 7, 2016 Transaction

8. On March 2, 2016, both WANG and SZURA text-messaged UCA-1 asking to buy more bitcoins. Throughout subsequent text-message conversations, they scheduled to meet on March 7, 2016. At 2:33am on March 7, 2016, SZURA text-messaged UCA-1, asking for 74 bitcoins worth approximately \$30,000 and to transact at a specified restaurant in Amherst, New York. At 1:19pm on March 7, 2016, WANG text-messaged UCA-1 to confirm the meeting. At 2:15pm, UCA-1 asked SZURA regarding “what they discussed before,” a reference to the Xanax bars (“bars” and “pills” are synonymous in this context). SZURA replied that for 500 pills of “green” S903 or “white” G3722, the price was \$1.50 per pill, but that the price would be cheaper in the UCA-1 purchased in bulk. Shortly before the scheduled time of the meeting, WANG called UCA-1 and reduced the Bitcoin exchange amount to \$8,700.

9. At approximately 6:15pm on March 7, 2016, WANG and SZURA met with UCA-1 at the specified location in Amherst, New York. SZURA told UCA-1 that he did not bring 500 pills because he thought UCA-1 only wanted a sample. SZURA then handed to UCA-1 four pills that SZURA represented to be Xanax: two green bars marked "S903" and two white bars marked "G3722". (Based on my training and experience, these characteristics are consistent with pharmaceutical products containing alprazolam.) WANG also produced a set of U.S. currency approximating \$8,700 to consummate the Bitcoin exchange. Agents then detained both WANG and SZURA.

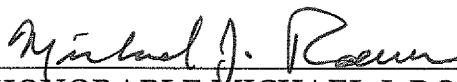
10. Based upon the foregoing information, I believe there is probable cause to charge ZHE WANG and KEVIN SZURA with the crimes of conspiracy to distribute controlled substances, in violation of Title 21, United States Code, Section 846, and money laundering conspiracy, in violation of Title 18, United States Code, Section 1956(h).



FRANCIS ZABAWA
Special Agent
Homeland Security Investigations

Subscribed and sworn to before

me this 8th day of March, 2016



HONORABLE MICHAEL J. ROEMER
United States Magistrate Judge