



**U.S. Department of Justice
U.S. Attorney's Office
Western District of Texas**

Johnny Sutton, U.S. Attorney

FOR IMMEDIATE RELEASE

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**EIGHT DEFENDANTS PLEAD GUILTY IN MULTI-MILLION DOLLAR
RACKETEERING, OBSCENITY, FRAUD AND TAX EVASION SCHEME**

United States Attorney Johnny Sutton, Enrique S. Fasci, Special Agent in Charge of the Internal Revenue Service - Criminal Investigation and Doug Krockenberger, Special Agent in Charge of the Bureau of Immigration and Customs Enforcement announced that 61-year-old John Kenneth Coil, owner and operator (directly and indirectly through nominees) of 27 adult-oriented businesses in Texas, New Mexico and Arizona, and seven other individuals have pled guilty to federal charges in connection with a racketeering, obscenity, fraud and income tax evasion investigation.

On Friday (6/11/04), Coil, of Highland Village, Texas, appeared before United States District Judge Harry Lee Hudspeth and pled guilty to: 1) obscenity involving the interstate transportation of a film entitled "Nympho Bride"¹ and; 2) mail fraud for mailing a fraudulent 1040 tax return in furtherance of a scheme to defraud the Internal Revenue Service. In addition, he agreed to forfeit all his enterprise properties within the State of Texas, amounting to over 30 pieces of realty and 20 hard-core pornography stores throughout Texas valued at an estimated \$9.7 million. The forfeited properties are located in Austin, San Antonio, El Paso, Waco, Dallas, Lubbock, College Station, Houston, Brownsville, Corpus Christi, Beaumont, Longview and elsewhere.

Additionally, by his guilty plea, Coil admitted to using front companies with names such as Louisiana Development, Rex Temple, and Trinity Christians of America to run his "adult" pornography stores in Texas, Louisiana and other states. Coil put some properties into the names of some of his children and in "trusts" for his children without their knowledge, yet still under his control. He also skimmed monies from the stores and failed to file tax returns or disclose such income for tax purposes on returns he did file. The total tax loss as a result of his scheme exceeded \$4.5 million for the tax years 1981-2003.

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¹The obscene materials named in the Indictment and Factual Basis for the Plea were hard-core pornography with penetration clearly visible, depicting adults engaged in ultimate sexual acts, including the following titles: Nympho Bride (Video Team); Gang Bang Angels #16 (Elegant Angel Entertainment); Annaka's Deep Oral Ladies, Vol. 1 (Cinderella Distributors); Wet Cotton Panties, Vol 5 (Cinderella Distributors); Pretty Anal Ladies, Vol 6 (Cinderella Distributors); Booty Talk 2 (West Coast Productions); Strangelove's Sex Stories (West Coast Productions); Gang Bang Slut #7 (Al Borda Video); Young, Dumb and Full of Cum (Zane Entertainment); and, Anal Auditions #4 (Max Hardcore Productions).

John Kenneth Coil, et al. guilty pleas release

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During the same hearing, his son, 24-year-old John Altaire Coil, of Highland Village, his business partner 48-year-old Charles Phelps, Jr. (a.k.a. "Mr. D" and "Dave Smith") of San Juan, Texas, entered guilty pleas. John Altaire Coil pled guilty to making false statements on his 1999 income tax return. Coil admitted that he under reported his true taxable income for calendar year 1999. He further admitted that he had not earned \$196,000 from rental income as stated in the tax return but that the money was unlawfully assigned to him by his father, John Kenneth Coil. Charles Phelps, Jr. pled guilty to one count of conspiracy to defraud the IRS. According to court documents, from 1997 to 2002, Charles Phelps, Jr. enlisted the assistance of his son, 23-year-old Charles Joseph Phelps, of San Juan, Texas, and others in concealing from the IRS approximately \$400,000 in income derived from AVE, Inc. and Adjust, Inc., companies he co-owned with John Kenneth Coil. On April 16, 2004, Charles Joseph Phelps pled guilty to two counts of knowingly providing false information to the IRS.

On May 21, 2004, John Kenneth Coil's wife, 42-year-old Paula Katherine Coil, of Flower Mound, Texas, pled guilty to making fraudulent and false statements on the Coil's 1999 joint income tax return. According to court documents, the Coil's failed to report over \$300,000 in income.

On March 18, 2004, John Kenneth Coil's daughter, 35-year-old Katherine Dagnino of Dallas, Texas, pled guilty to conspiracy to defraud the Internal Revenue Service. According to court documents, Dagnino, as trustee of the childrens' trust, concealed and disguised over \$500,000 of her father's assets.

On June 10, 2004, John Kenneth Coil's business associate and employee, 57-year-old Curtis Wayne Castro, of Dallas, Texas, pled guilty to income tax evasion. Castro failed to report on his 1995 income tax return \$430,000 in income he received when he sold several adult bookstores to Coil's childrens' trust.

On May 21, 2004, 51-year-old Rhonda K. Tegner, of Flower Mound, Texas, a bookkeeper for John Kenneth Coil and Charles Phelps, Jr., pled guilty to knowingly filing a fraudulent tax return. According to court documents, Tegner embezzled over \$47,000 from Coil and Phelps in 1997 and failed to report that income on her 1997 income tax return.

John Kenneth Coil faces up to ten years in federal prison; John Altaire Coil, up to three years in federal prison; each of the remaining defendants, up to five years in federal prison. All remain out on bond pending sentencing. Sentencing for John Kenneth Coil and Charles Phelps, Jr. is scheduled for August 26, 2004; the other defendants, August 11, 2004.

This case was investigated by the Internal Revenue Service - Criminal Investigation, Bureau of Immigration and Customs Enforcement, Dallas County District Attorney's Office and the Austin Police Department. Assistant United States Attorney Mark Marshall, Special Assistant United States Attorney N. T. Gallagher of the Dallas County District Attorney's Office, D.O.J. Child Exploitation and Obscenity Division Attorney Ben Vernia and D.O.J. Senior Counsel Bruce Taylor are prosecuting this case on behalf of the government.

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