



**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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September 17, 2004

**JOHN KENNETH COIL SENTENCED TO FEDERAL PRISON IN MULTI-MILLION
DOLLAR RACKETEERING, OBSCENITY, FRAUD AND TAX EVASION SCHEME**

United States Attorney Johnny Sutton, Martin J. Sheil, Acting Special Agent in Charge, Internal Revenue Service - Criminal Investigation, Alonzo R. Pena, Special Agent in Charge, United States Immigration and Customs Enforcement and Dallas County District Attorney Bill Hill 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, was sentenced earlier today to 63 months in federal prison after pleading guilty to federal charges in connection with a racketeering, obscenity, fraud and income tax evasion scheme. In addition to the prison term, United States District Judge Harry Lee Hudspeth ordered that Coil pay a \$ 5,000 fine, forfeit an estimated \$8.1 million in property to the government and be placed under supervised release for a period of three years after completing his prison term.

“John Kenneth Coil has been a long time pornography merchant who has made millions selling obscenity and cheating on his taxes. He is finally on his way to federal prison for his crimes. American families have won a battle today in the fight against pornography. Today’s sentences should put those in the hard-core pornography business on notice that there will be a price to pay for violating our obscenity and tax laws,” stated United States Attorney Johnny Sutton.

On June 11, 2004, Coil, of Highland Village, Texas, 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 IRS. Coil also agreed to forfeit all his enterprise properties within the State of Texas, amounting to over 40 pieces of realty and 20 hard-core pornography stores throughout Texas valued at an estimated \$8.1 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. Coil admitted to using

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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.

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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.

“The coordinated efforts of IRS - Criminal Investigation Division with state, local and other federal law enforcement resulted in the comprehensive ‘decimation’ of this nefarious organization and the fuel that drove it ‘its money’. IRS - CID is dedicated to using its financial investigative expertise to ensure compliance with the tax laws and related financial statutes whether the income is legal or illicit as in this case,” stated Martin J. Sheil, Acting Special Agent in Charge, IRS - Criminal Investigation Division.

“Operation ‘Skimflick’ is just another example of an Immigration and Customs Enforcement investigation culminating in disrupting or dismantling alternative financing mechanisms before criminal organizations are able to exploit them for their own purposes,” explained Alonzo R. Pena, Special Agent in Charge, Immigration and Customs Enforcement (ICE), San Antonio, TX.

“It took years of investigation along with risky undercover work to penetrate this criminal organization,” said Dallas County District Attorney Bill Hill. “Hard work and extensive cooperation between this office and federal authorities brought to justice criminals who believed they were untouchable. They now know otherwise.”

In addition to Coil, Judge Hudspeth sentenced seven other co-defendants. They are:

- Yesterday, Coil’s business partner, 48-year-old Charles Phelps, Jr. (a.k.a. “Mr. D” and “Dave Smith”) of San Juan, Texas, received 42 months in federal prison and fined \$5,000 for conspiring to defraud the IRS. From 1997 to 2002, Phelps enlisted the assistance of others to conceal from the IRS approximately \$400,000 in income derived from AVE, Inc. and Adjust, Inc., companies he co-owned with Coil.
- On August 11, 2004, Coil’s son, 24-year-old John Altaire Coil, of Highland Village, Texas, received three years probation and fined \$5,000 after pleading 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;
- On August 11, 2004, Coil’s business associate and employee, 57-year-old Curtis Wayne Castro, of Dallas, Texas, received one year and one day in federal prison after pleading 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.

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- On July 30, 2004, Phelps' son, 23-year-old Charles Joseph Phelps, of San Juan, Texas, received three years probation after pleading guilty to two counts of knowingly providing false information to the IRS.
- On July 30, 2004, Coil's wife, 42-year-old Paula Katherine Coil, of Flower Mound, Texas, received three years probation after pleading guilty to making fraudulent and false statements on the their 1999 joint income tax return. Coil admitted failing to report over \$300,000 in income on their tax return.
- On July 30, 2004, Coil's daughter, 35-year-old Katherine Dagnino of Dallas, Texas, received three years probation after pleading guilty to conspiracy to defraud the IRS. Dagnino, as trustee of the childrens' trust, concealed and disguised over \$500,000 of her father's assets.
- On September 9, 2003, Coil's and Charles Phelps' bookkeeper, 51-year-old Rhonda K. Tegner, of Flower Mound, Texas, was sentenced to three years probation, fined \$1,000 and ordered to pay \$43,975.00 restitution after pleading guilty to knowingly filing a fraudulent tax return. Tegner embezzled over \$47,000 from Coil and Phelps in 1997 and failed to report that income on her 1997 income tax return.

This case was investigated by the IRS - Criminal Investigation, United States 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 prosecuted this case on behalf of the government.

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See attachment for listing of forfeited properties

Property to be Forfeited USA v. John Kenneth Coil

<u>Property Description</u>	<u>Estimated</u>
<u>Value</u>	
Vacant land - 3.217 acre Tract S. IH 35, Austin, TX	\$500,000.00
Oasis Adult Video, 9601 IH 35 North, Austin, TX	\$594,230.00
Parking lot for Oasis Adult Video 9606 Middle Fiskville Rd., Austin, TX	\$ 28,770.00
Adult News, 5246 East Avenue, Hwy 71, Del Valle, TX	\$175,000.00
Adult Movies, 434 Fannin, Beaumont, TX	\$ 35,100.00
Adult Video Store, 603 South Texas, College Station, TX	\$143,500.00
Adult Video Store, 104 Poplar, College Station, TX	\$ 23,810.00
Parking lot for Adult Video, 106 Poplar, College Station, TX	\$ 19,410.00
Adult Video, 7430 IH 37, Corpus Christi, TX	\$ 70,000.00
Residence, 3379 Townsend Dr., Dallas, TX	\$ 95,500.00
Office Building, 2014 Market Center Blvd., Dallas, TX	\$225,000.00
Residence, 3149 Valley View Lane, Farmers Branch, TX	\$ 88,000.00
Residence, 6405 Branchwood, Flower Mound, TX	\$147,000.00
Commercial Bldg,(.619) 539 W. Veteran's Memorial Blvd, Harker Heights, TX	\$ 72,474.00
Parking lot, (.254)539 W. Veteran's Memorial Blvd., Harker Heights, TX	\$ 889.00
Residence, 707 Highland Village Rd., Highland Village, TX	\$125,000.00
Residence, 3208 Glen Haven Court, Highland Village, TX	\$224,000.00
24 Hour News, 608 W. Mount, Houston, TX	\$500,000.00
Adult Video Store, 5120 Antoine, Houston, TX	\$225,000.00
Commercial Building, 1463 FM 1960, Houston, TX	\$704,000.00
Commercial Building, 8213 Gulf Freeway, Houston, TX	\$171,290.00

Commercial Building, 14905 South Main, Houston, TX	\$ 55,900.00
Commercial Building, 9924 North IH 45, Houston, TX	\$330,000.00
Adult Video Store, 1830 South Highway 6, Houston, TX	\$695,000.00
Adult Book Store, 6610 North IH 35, Waco, TX	\$ 73,000.00
Commercial Building, 1408 North Avenue Y, Lubbock, TX	\$100,000.00
Adult Video Store, 800 E. Expressway, 83 South Side, Pharr, TX	\$155,000.00
Adult Video Store, 16801 IH 35 South, Round Rock, TX	\$250,000.00
Vacant land, 16807 IH 35 South, Round Rock, TX	\$155,000.00
Vacant land, 16813 IH 35 South, Round Rock, TX	\$155,000.00
Vacant land, 16819 South IH 35 (same as 2207 South IH 35), Round Rock, TX	\$880,000.00
Vacant land, 16823 IH 35 South, (aka 3213 IH 35 South), Round Rock, TX	\$125,000.00
Vacant land, 3464 Copeland, San Antonio, TX	\$ 7,000.00
Adult Video Store, 4828 Loop 410 NW, San Antonio, TX	\$200,000.00
Adult Video Store, 3310 North IH 35 (PanAm Expressway North, Lot W), San Antonio, TX	\$138,200.00
Parking lot, 3310 North IH 35 (PanAm Expressway North, Lot E), San Antonio, TX	\$ 200.00
Adult Video Store, 9911 IH 35 North, San Antonio, TX	\$235,000.00
Adult Video Store, 5521 East IH 10, San Antonio, TX	\$300,000.00
Adult Book Store, 42590 W. Expressway 83, San Benito, TX	\$ 82,000.00
Residence, 7808 Military Hwy., Brownsville, TX	\$ 60,000.00
Total	\$8,164,273.00

All property, includes but not limited to; all digital video disc player (DVD), television monitors, coin boxes and their contents, change machines, safes, video cassette tapes players (VCR's), video cassette (blank

and recorded), magazines, other printed material, “rubber goods and novelties”, shelving and display material, projectors, chairs, tables, cash registers, and their contents, United States Currency, computers, adding machines, from the following properties:

- Store located at 975 Anglum Rd., Hazelwood, Missouri
- Store located at 700 Kyle Drive, Austin, Texas
- Store located at 354 Elizabeth Street, Brownsville, Texas
- Store located at 12911 Westheimer Road, Houston, Texas
- Store located at 5605 Telephone Road, Houston, Texas
- Store located at 608 West Mount, Houston, Texas
- Store located at 5654 S. 1900 W. Roy, Utah
- Store located at 6885 South State Street, Midvale, Utah