



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

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FOR IMMEDIATE RELEASE

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**FEDERAL AUTHORITIES CHARGE SEVEN 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 Charles S. Harrison, Special Agent in Charge of the Bureau of Immigration and Customs Enforcement announced today that federal authorities have arrested five individuals and are looking for two others in connection with a racketeering, obscenity, fraud and income tax evasion investigation.

On Tuesday, a federal grand jury in Waco, Texas, returned a 30-count indictment against:

- John Kenneth Coil, age 61, of Highland Village, Texas. Coil is the owner and operator (directly and indirectly through nominees) of 27 adult-oriented businesses in Texas, New Mexico and Arizona. He is charged with two Racketeering Influenced Corrupt Organization (RICO) counts, one count of conspiracy to defraud the Internal Revenue Service, one count of tax evasion, five counts of importation of obscene material, five counts of interstate transportation of obscene material, five counts of engaging in the business of selling or transferring obscene material, four counts of mail fraud, and one count of false representation of a Social Security number.
- Paula Katherine Coil, age 42, of Flower Mound, Texas. Paula Coil is John Kenneth Coil's wife. She is charged with one count of conspiracy to defraud the Internal Revenue Service.
- Katherine Dagnino, age 34, of Dallas, Texas. Katherine Dagnino is John Kenneth Coil's daughter. She is charged with two RICO counts, one count of conspiracy to defraud the Internal Revenue Service, five counts of importation of obscene material, five counts of interstate transportation of obscene material, five counts of engaging in the business of selling or transferring obscene material and two counts of mail fraud.
- John Altaire Coil, age 23, of Highland Village, Texas. John A. Coil is John Kenneth Coil's son. He is charged with two RICO counts, one count of conspiracy to defraud the Internal Revenue Service, five counts of importation of obscene material, five counts of interstate transportation of obscene material and five counts of engaging in the business of selling or transferring obscene material.

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Coil Indictment Release

September 25, 2003

Page 2

- Curtis Wayne Castro, age 58, of Dallas, Texas. Curtis Castro is John Kenneth Coil's business associate and employee. He is charged with two RICO counts, one count of conspiracy to defraud the Internal Revenue Service, five counts of importation of obscene material, five counts of interstate transportation of obscene material and five counts of engaging in the business of selling or transferring obscene material.
- Charles Phelps, Jr. (a.k.a. "Mr. D" and "Dave Smith"), age 47, of San Juan, Texas. Phelps is a co-owner with John Kenneth Coil of three adult-oriented businesses in Texas, one in New Mexico and one in Arizona. He is charged with two RICO counts, one count of conspiracy to defraud the Internal Revenue Service, five counts of importation of obscene material, five counts of interstate transportation of obscene material, five counts of engaging in the business of selling or transferring obscene material and four counts of mail fraud.
- Charles Joseph Phelps, age 22, of San Juan, Texas. Charles Joseph Phelps is Charles Phelps, Jr.'s son. He is charged with one count of conspiracy to defraud the Internal Revenue Service.

Charles Phelps, Jr. and Charles Joseph Phelps are still at large.

The indictment, which was unsealed this afternoon, alleges that the defendants were members of an organization established by John Kenneth Coil in 1981 that: 1) profited enormously by owning and operating numerous adult bookstores and arcades which sold and distributed obscene and pornographic materials; 2) knowingly transported in interstate commerce obscene, lewd and lascivious pictures, films, prints, images, electronic transcriptions and digital video discs which depict among other things, incest, sado-masochism and child exploitation; 3) created fictitious businesses as "fronts," recruited nominees to falsely identify themselves as business owners and operators and/or used a person's identity—without that person's knowledge or consent—to establish a fraudulent business ownership in an effort to disguise John Kenneth Coil's ownership and to insulate him from criminal and civil liability arising from the organization's day-to-day operations; and 4) engaged in numerous financial transactions in order to impede and impair the ascertainment and collection of federal income tax.

Finally, the indictment contains a forfeiture charge in which the government is seeking to forfeit from the defendants more than \$9.7 million in proceeds from the racketeering enterprise including 58 pieces of property across Texas, New Mexico, Arizona, Arkansas, Louisiana, Missouri and Utah plus stock in several corporations.

"This case offers the classic situation for the application of the RICO statute," stated U.S. Attorney Johnny Sutton. "Moving in and out of numerous corporate shells, John Kenneth Coil and his enterprise generated millions of dollars from the sale of obscene materials. After decades of disregarding both Federal and State laws, Coil and members of his organization face lengthy Federal prison terms upon their conviction under the RICO statute."

Coil Indictment Release
September 25, 2003
Page 3

“The indictment charges that these defendants conspired to hide the true income and disposition of the income earned from the distribution of obscene material from the Internal Revenue Service,” stated Enrique Fasci, Special Agent in Charge, Internal Revenue Service - Criminal Investigation. “The defendants’ businesses, valued at approximately \$9.7 million, are now subject to forfeiture action by the government.”

“This indictment and resulting arrests represent over five years of dedicated investigative effort by Immigration and Customs enforcement agents, Internal Revenue Service agents and the Dallas County District Attorney’s office,” said Charles S. Harrison, Special Agent in Charge for the Bureau of Immigration and Customs Enforcement (ICE). “Racketeering is a serious crime. This was a complex and interwoven enterprise that operates within at least seven states.”

“This lengthy investigation and pending prosecution underscore the commitment of participating State and Federal agencies to confront a sophisticated criminal enterprise and remove it from an apparent untouchable status. Justice will find these defendants and those like them,” stated Bill Hill, Dallas County District Attorney.

Upon conviction, the defendants face up to 20 years in Federal prison per RICO charge and up to five years in Federal prison for each of the remaining charges.

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. Tax Division Attorney Shelly Goldklang are prosecuting this case on behalf of the government.

An indictment is a formal accusation of criminal conduct, not evidence. The defendants are presumed innocent unless and until convicted through due process of law.

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