

Department of Justice
U.S. Attorney's Office
Eastern District of Kentucky

FOR IMMEDIATE RELEASE
Friday, December 23, 2016

Last Defendant In \$48 Million Dollar Cigarette Tax Fraud Scheme Sentenced

The case involved untaxed cigarettes sold in all 50 States and was the first prosecution in the nation under federal PACT Act.

The last defendant in a domestic and international, multimillion-dollar cigarette tax fraud scheme has been sentenced.

On Thursday, U.S. District Judge David L. Bunning sentenced Anthony Cosica, 54, of Pinetop, Ariz., to 24 months in federal prison. Eight other defendants, including three from eastern Kentucky and two from Russia, have already been sentenced, for charges including conspiracy to commit mail fraud, wire fraud and money laundering and violations of the PACT Act.

This case marks the first prosecution in the nation for violations of the PACT Act, which is a 2010 federal law enacted to prevent trafficking in untaxed cigarettes.

According to court documents and evidence presented at trial, from 2008 to 2013, the defendants devised a scheme that defrauded federal, state and local governments across the country, out of cigarette excise taxes totaling approximately \$48 million. Specifically, the defendants operated mail order and internet businesses engaged in the delivery sales of untaxed cigarettes to customers in all 50 states.

"This case represents a milestone in enforcement of the PACT Act," said Kerry B. Harvey, U.S. Attorney for the Eastern District of Kentucky. "Mr. Cosica and his co-conspirators devised a complex criminal enterprise of international proportions which cost public treasuries millions of dollars. Congratulations to the law enforcement agencies and our trial team for their superb work in unwinding this criminal scheme."

The leader of the conspiracy, John Maddux Jr., 56, formerly of Russell, Ky., operated mail order/online businesses that sold the cigarettes at discount prices. Maddux executed the scheme by forming a business with two Russian nationals, Alexander Sergeev and Mikhail Serov. Sergeev and Serov shipped cigarettes from Russia directly to customers of Maddux and his co-conspirators. Evidence at trial further established that Maddux also fulfilled cigarette orders for other co-conspirators, who were also operating similar mail/online businesses. To get the cigarettes through U.S. Mail, the defendants disguised and marked the cigarettes as gift items, which is a violation of the PACT Act.

Under the PACT Act, businesses are required to register and report cigarette and tobacco sales to state tax administrators, allowing States to properly collect required excise taxes from the businesses. The defendants intentionally avoided these requirements and millions of dollars in taxes during the scheme.

The defendants received the following prison sentences: John Maddux 10 years; Christina Carmen, formerly of Russell, Ky., 60 months; David H. White, formerly of Ashland, Ky., 24 months; Julie Coscia, of Pinetop, Ariz., 36 months; Michael E. Smith, of Escondido, Calif., 42 months; Alexander

Sergeev, 46 months; Mikhail Serov, 46 months; and Barbara Routh, of Prospect, Ky., two years' probation. Under federal law, all defendants must serve at least 85 percent of their prison sentence.

Domestic and International trafficking in untaxed cigarettes via mail order or the Internet defrauds the federal and state governments of hundreds of millions of dollars in tobacco taxes and frequently funds other criminal activity.

U.S. Attorney Harvey; Stewart Lowrey, Special Agent in Charge, Louisville Field Division, Alcohol Tobacco Firearms and Explosives; Tracey Montano, Special Agent in Charge, Nashville Field Office, Internal Revenue Service-Criminal Investigations; Richard Deer, Acting Special Agent in Charge, Philadelphia Regional Office of the U.S. Department of Labor, Office of Inspector General, Office of Labor Racketeering and Fraud Investigations; and Mark McCormack, Special Agent in Charge, Metro Washington Field Office, U.S. Food and Drug Administration, jointly announced the sentence.

The investigation was conducted by the Bureau of Alcohol Tobacco Firearms and Explosives, the Internal Revenue Service-Criminal Investigations, the United States Department of Labor, Office of Inspector General, and U.S. Food and Drug Administration. Assistant United States Attorneys Laura K. Voorhees and Wade T. Napier, and ATF Associate Chief Counsel, Jeffery A. Cohen, prosecuted this case on behalf of the federal government.