

# Former Raley's executive pleads guilty to federal charges

By Cathy Locke, Sacramento Bee

A former advertising director for Raley's has pleaded guilty to his role in a complex scheme to defraud the West Sacramento-based supermarket chain of more than \$2.5 million.

David John Magana, 46, of Auburn pleaded guilty Tuesday in U.S. District Court in Sacramento to conspiracy to commit mail and wire fraud, and to a money-laundering conspiracy.



According to court documents, Magana conspired with others to defraud Raley's through a scheme that involved kickbacks, selling Raley's paper inventory to third parties at a discount and supplying paper to Raley's at an inflated price.

Lauren Horwood, a spokeswoman for the federal Department of Justice in Sacramento, said Magana is the only person charged in the case, but the investigation is ongoing.

John Segale, a spokesman for Raley's, said Magana's employment with the company ended in September 2010.

"As far as we know, no current Raley's employees are being investigated," Segale said.

Raley's issued a written statement saying, "We greatly appreciate the efforts of the FBI and the IRS in getting this guilty plea. While we may never know what motivated his decision to commit fraud, it is clear he will pay a very steep price for his actions."

According to court documents, Magana demanded that a company that provided printing services to Raley's, Vertis Inc., and a company that provided paper supplies, Graphic Communication Holding Inc., pay a co-conspirator unnecessary commissions if they wanted to keep doing business with Raley's.

Given Magana's position as director of advertising, both firms agreed to pay Magana's co-conspirator as long as Magana made sure that Raley's reimbursed them.

Magana reimbursed the companies for the unnecessary commissions by disguising them as additional charges within their regular invoices. Magana approved payment of all the inflated invoices from the firms, and his co-conspirator paid Magana a kickback after he received money from Vertis and Graphic Communication, according to a federal Department of Justice news release.

Magana and others also worked together to sell significant quantities of Raley's paper inventory to third parties at a discounted rate, according to federal authorities. Much of that paper was stored in a warehouse managed by a logistics company, but as Raley's advertising director, Magana had access to the paper in the warehouse.

Magana and his co-conspirators advertised the discounted paper by word of mouth and through the Internet, and kept most of the proceeds, authorities said. They falsely reported to Raley's that the paper had been used in the normal course of business.

Magana and a co-conspirator used a company known as Seven Sisters Media Inc. as a shell corporation through which they laundered the proceeds, authorities said.

Magana and another co-conspirator used a company known as Advantage Paper Inc. to receive a portion of the proceeds from the fraud scheme and also used Advantage Paper to supply paper to Raley's at an inflated price.

They met periodically to determine the amount Raley's would pay for the paper. In each instance, authorities said, the inflated price included the money that Advantage Paper paid Magana as a kickback.

Magana is to be sentenced June 4 by U.S. District Judge John A. Mendez. He could face a maximum sentence of 20 years in prison on the mail fraud charge and a fine of \$250,000 or more, according to the news release.

The maximum sentence for the money-laundering charge is 20 years in prison and a fine of \$500,000, or twice the value of the laundered property, whichever is greater.