



NEWS RELEASE

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**APPALACHIAN OIL COMPANY ENTERS INTO PRETRIAL DIVERSION
AGREEMENT FOR CONSPIRACY TO COMMIT WIRE FRAUD AFTER SELLING
DISCOUNTED CIGARETTES TO WHOLESALERS**

United States Attorney John L. Brownlee announced today that Appalachian Oil Company Inc. has entered into a pretrial diversion agreement with the United States for conspiracy to commit wire fraud.

According to the one count Information filed in United States District Court in Abingdon, Virginia, Appalachian Oil Company Inc. entered into a series of marketing contracts with R.J. Reynolds Tobacco Company to obtain discounted cigarettes which are to be sold exclusively to customers. Instead, Appalachian Oil Company would sell large quantities of discounted cigarettes to wholesalers in direct violation of their marketing contract.

“In an effort to cover up their scheme, Appalachian Oil Company created false invoices, which they submitted to R.J. Reynolds Tobacco Company,” said United States Attorney John Brownlee. “We hope to send the message that those who commit

fraud will be held accountable for their actions.”

Between June 2002 and May 2004, Appalachian Oil Company made numerous purchases of R.J. Reynolds’ specially priced (bought down) brand-name cigarettes on behalf of wholesalers J&L Distributors, LLC and R.J. Marketing, Inc. Between March 7, 2003 and December 3, 2003, 36 special orders of R.J. Reynolds’ cigarettes were placed by Appalachian Oil Company. For each order, a company official would create a fraudulent invoice in order to falsify the records. The falsified invoices created a paper trail which made it appear that the cigarettes had been purchased for and delivered to Appalachian Oil Company retail stores located in Virginia. In reality, the cartons of cigarettes were distributed from the warehouse of the wholesalers in Tennessee to R.J. Marketing in Tennessee.

R.J. Marketing did not have a contract with R.J. Reynolds Tobacco Company and thus could not purchase brand name cigarettes from a wholesalers at the reduced brought down price.

Under the conditions of the pretrial diversion agreement, Appalachian Oil Company accepts responsibility for the conduct outlined in the Information and will pay \$255,000 in forfeiture. Appalachian Oil Company will also pay R.J. Reynolds Tobacco Company \$2,500,000, representing the restitution due to R.J. Reynolds Tobacco Company for off-contract sales of discounted cigarettes by Appalachian Oil Company. The agreement also states that Appalachian Oil Company will not rehire the former President of the Convenience Store Division and will appoint someone to serve as their Compliance Officer to assure that employees comply with all federal, state, and local laws as well as Appalachian Oil Company’s policies and procedures. Finally, Appalachian Oil Company will maintain a disclosure program whereby citizens can

disclose issues or questions to the Compliance Officer involving Appalachian Oil Company's compliance with this agreement. In exchange, the United States agrees to defer prosecution for three years. If Appalachian Oil Company complies with the conditions outlined above, the Information will be dismissed.

The case was investigated by the Bristol Office of the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF); the Virginia State Police; the Tazewell County Sheriff's Office; and the Washington County Sheriff's Office. Assistant United States Attorney Jennifer Bockhorst prosecuted the case.

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