

Businessman jailed for £34m fraud at failed software company

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Gerald Smith, a businessman and property developer, is starting an eight-year prison sentence for his part in a £34m fraud at Izodia, the failed e-commerce software company that was formerly listed on the alternative investment market.

At a sentencing hearing at Cambridge Crown Court yesterday, the fraud was described as "complex and brazen". Judge George Bathurst-Norman was told that much of the diverted money should have belonged to City institutions and pension funds.

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The 51-year-old businessman had already pleaded guilty to 10 counts of theft and one of false accounting, with the amounts stolen said to involve more than £34m.

Those pleas had been entered in April, at the 11th hour, just before a trial had been due to start at Blackfriars Crown Court in London. Sentencing, however, was delayed for health reasons.

Judge Bathurst-Norman handed down four-year sentences on three of the theft counts to run concurrently, and another four years on each of the remaining seven theft counts and the false accounting count, also to run concurrently.

The two four-year sentences will be served consecutively - making a total prison term of eight years. Mr Smith will also be disqualified from acting as a company director for 15 years.

The Serious Fraud Office, which brought the case, is also seeking confiscation of assets, and hearings in that matter have been set provisionally for November.

The fraud dates back to events in 2002. Izodia traded in computer software and, when dotcom stocks were extremely fashionable, it hit a peak stock market value of £1.7bn in March 2000.

It raised £130m from City institutions a month later but when the dotcom bubble burst, Izodia did little trading and by mid-2002 it was essentially a cash shell holding more than £30m.

Mr Smith, through his Jersey-based property business known as the Orb Group, acquired a substantial stake in Izodia and was able to exert control.

Prosecutors alleged that this resulted in the movement of Izodia's cash assets from the Reading branch of Royal Bank of Scotland to Jersey, where it was stolen by Mr Smith. They told the judge that some of the money was used by Orb, which was investing heavily in hotels at the time, to make interest payments.

Mr Smith, who had previously been sentenced to two years in prison for stealing from the pension fund of a company of which he was chief executive in the early-1990s, was charged in 2005, following a complaint by RBS and a subsequent SFO and police investigation. Proceedings were also begun against two other ex-Izodia directors although one case had to be severed from the anticipated trial because of the defendant's ill-health.

After Mr Smith pleaded guilty, the SFO decided not to continue the prosecution against the other defendant. Charges against both these two will now lie on the file.

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