

Posted on Wed, Aug. 07, 2002

How career con man scored at valley firm

GLIB SALESMAN EXPLOITED THE SYSTEM

By Scott Herhold
San Jose Mercury News

Around his home in Florence, S.C., people found it impossible to dislike Gary William Jones. Before he became a Silicon Valley salesman, the 51-year-old was known for going to church, ferrying the elderly to doctors and inviting kids into his home at Christmas to see the tree that spit out snow as it turned. Jones might have been the perfect citizen but for one flaw: He was a career thief. And that career peaked last month when he pleaded guilty in what authorities described as a \$5 million scheme to forge sales to the federal government on behalf of a Mountain View software company, Sagent Technology.

His brief and disastrous stint at Sagent tells volumes about how internal controls can fail in a struggling Silicon Valley company. It shows why pressure lingers not to challenge the star salesman, particularly not one who claims to know a three-star general and a U.S. senator. **And it underscores just how much damage can occur when a savvy thief exploits a flawed structure. When Sagent announced the forged sales contracts last November, its stock plunged from \$1.29 to 79 cents a share. The company replaced its CFO, restated its numbers and laid off 20 percent of its employees -- roughly 60 people. Now it faces a shareholder lawsuit charging its executives with recklessly reporting sales.**

“He did a tremendous amount of damage,” said Steven Springsteel, Sagent's new CFO, who has worked to clean up the mess. “It created a whole credibility issue.”

Jones did not respond to a written request for an interview. But court records and SEC documents show how two stories of desperation intertwined -- one of a company trying to revive itself and another of a convicted felon trying to reinvent his game. Before Jones ever arrived on the scene, troubles had dogged Sagent, which designs software that lets companies collect information from various databases. Although it had a modestly successful initial public offering in 1999 and reached a high of more than \$43 a share at the crest of the bubble, the company tumbled badly in April 2000, when its accountants refused to approve two contracts worth \$3.5 million.

With a new chief executive officer, Ben Barnes, and a new chief financial officer, David Eliff, the company appeared to progress in 2001. Despite the attacks on Sept. 11, Sagent booked \$14.5 million in revenue in the third quarter, an increase of 5 percent over the same period in 2000.

THE MAIN MAN

That increase depended to an exceptional degree upon one man: Gary Jones, Sagent's “director of federal sales” at its office in Fairfax, Va., who had booked \$3.3 million in sales to U.S. Navy Medical Systems and Pentagon. **Sagent had hired him in the hot job market of mid-2000, relying on an East Coast recruiter to check his background. But had the company checked his past -- or his purported customers -- it might have booked the man rather than the revenue.**

The South Carolinian had a robust criminal pedigree: According to an FBI affidavit, he was convicted in 1992 of three felony counts of larceny in Waynesboro, Va. Five years later, he was convicted of multiple counts of financial fraud and forgery in South Carolina. When he joined Sagent -- not long after doing a stint behind bars -- Jones was facing fresh charges of filing false claims with the South Carolina Medicaid program. Authorities say he ran part of a business that billed the state for bogus nursing calls.

Blond, blue-eyed and blessed with a gift of gab, the strapping con man surmounted that past with an instinctive feel for people. In Florence, where he had married a devout widow, neighbors say he told them he had once played football with the San Diego Chargers. And though the NFL has no record of any Gary William Jones, few questioned him.

“He's a charmer,” said Martha Scott Stanford, a friend of Jones' wife. “He could sell ice to the Eskimos.”

That sales ability quickly impressed his new bosses at Sagent. From the first, Jones displayed an innate command of bureaucratic foibles.

A GREAT STORY

“This guy talked a great story,” says Sagent's Springsteel. “He'd say, ‘You know, this general got involved, I may not get this deal. He'd conjure up all these hurdles. It was amazing how he thought up this stuff.’”

According to the FBI, Jones began cheating modestly, starting with forging a purchase order for the sale of \$172,500 in software to the National Gallery of Art in October 2000. Over the next year, he booked more than \$5 million worth of sales to agencies as disparate as the Drug Enforcement Agency, the U.S. Treasury and the Pentagon, where he listed his contact as the fictional three-star “General Wayne Curry.” Jones typically filled out phony purchase orders, inventing the names of officials to receive the software. Sometimes, he would ask Sagent to ship the software to him so that he could deliver it. He would fax in extra paperwork when it was needed. Sagent was never paid for these deals. But believing -- or hoping -- the sales were authentic, the company booked the revenue and rewarded Jones with \$428,000 in sales commissions. FBI records show Sagent didn't check independently with the agencies, even though customers typically needed help in installation.

“There was absolutely nothing sophisticated about this,” said Jones' attorney, federal public defender Barry Portman. “What amazes me about this is that the company never asked to see an original document. And it never met a real person at the agencies.”

Although a few people inside Sagent questioned Jones' deals -- in particular, sales operations director Patty Szoka -- court records suggest Sagent's executives were leery of confronting him. According to filings in a shareholder lawsuit, Jones explained delays by blaming federal secrecy or ineptitude. He explained to Sagent's finance director that he would handle the collections himself -- and promised to enlist a U.S. senator to help him.

“He portrayed these projects as being dark projects, where you needed a high clearance level to talk to the people and understand the detail,” said Sagent's Springsteel. “At the time, the company didn't have a lot of experience in that.”

The company, did, however, have a stake in showing its investors that it was rebounding. When it reported its numbers for the third quarter of 2001, CEO Barnes lauded employees for having ``rallied in the face of adversity" after the Sept. 11 attacks. It wasn't until later that fall, when Jones had been submitting phony sales for nearly a year, that his superiors finally uncovered the forgeries. Springsteel says the scheme unraveled when an official with the U.S. Navy Medical Systems called to say the authorizing signature of a real-life official was phony.

Jones was simultaneously working for a Massachusetts company, Global Knowledge, a Web-based educational trainer, which wasn't so credulous. When Jones submitted an \$11 million contract with EDS, a Global Knowledge official, Arthur Zambroff, began checking. Zambroff's suspicions were confirmed when he called a Jones contact -- only to be told that the man couldn't come to the phone because he was on his tractor. Not long afterward, Global fired Jones.

For Sagent, the entire house of cards collapsed in mid-November 2001, when it publicly announced that it was investigating the forgery of the purchase orders. CFO Eliff quit and was replaced by Springsteel. And Jones was arrested in North Carolina several months later. After pleading to two counts of mail fraud, he is facing a potential 10-year prison term.

Today both company and salesman are behind bars. Jones is there literally, waiting out his time before sentencing in Alameda County's Santa Rita Jail. Sagent, despite Springsteel's efforts, is doing time financially. The stock is now selling for 25 cents a share.

``They gave Gary too much rope," says one acquaintance of South Carolina's star salesman. ``And he hung himself."

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