

NEWS RELEASE



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For Immediate Release

**FORMER PEREGRINE SYSTEMS, INC. CEO TO
SERVE 97 MONTHS IN FEDERAL PRISON**

NEWS RELEASE SUMMARY - December 11, 2008

San Diego, CA - United States Attorney Karen P. Hewitt announced that Stephen Parker Gardner, former Chief Executive Officer of Peregrine Systems, Inc. ("Peregrine"), was sentenced today in federal court in San Diego by United States District Court Judge Thomas J. Whelan to serve 97 months in custody, based on his conviction on charges of conspiracy, securities fraud, and obstruction of justice, arising out of his participation in a scheme to defraud Peregrine's shareholders between 1999 and 2002. Judge Whelan cited Gardner's cooperation with federal authorities following his guilty plea in March 2007 and his testimony during the trial of his co-defendants as reasons that supported the sentence.

Judge Whelan ordered Gardner to serve a three-year term of supervised release following his release from prison. Judge Whelan also ordered Gardner to forfeit to the United States the proceeds from the sale

of three parcels of real estate in Maine, approximately \$970,032 from the sale of a fourth parcel of real estate, plus approximately \$384,652 seized from his brokerage accounts. Judge Whelan will address restitution at a hearing on February 23, 2009.

According to evidence introduced in Gardner's case, Peregrine was a business software company formerly headquartered in San Diego, California and had been one of the region's most celebrated technology companies. Shares of Peregrine were publicly traded on the NASDAQ and for ten consecutive quarters between 1999 and 2001, Gardner and his co-schemers declared that Peregrine had met or exceeded Wall Street expectations for revenue and earnings. In truth, Gardner and others fraudulently manipulated Peregrine's financial statements in order to deceptively meet these numbers, thereby fraudulently inflating and sustaining the price of Peregrine's stock. The scheme employed a number of fraudulent practices designed to manipulate Peregrine's revenue and earnings figures, including: (1) improperly keeping Peregrine's books "open" past the end of the fiscal quarter and deceptively including in the prior fiscal period backdated contracts that had actually closed in later periods; (2) improperly recording revenue on contracts that were subject to oral and written side agreements and promises; and (3) concealing from Wall Street the fact that Peregrine counted revenue on "barter deals" – that is, sales that were dependent on Peregrine's providing the purchaser with cash, equity, or orders for products or services.

According to court documents, in an effort to avoid restating revenues that had already been reported to Wall Street, Gardner and his co-schemers took steps to conceal from investors the fact that millions of dollars of Peregrine's accounts receivable had not been collected. In addition, in an effort to avoid scrutiny from the U.S. Securities and Exchange Commission ("SEC"), Gardner gave false and misleading testimony to the SEC about whether a series of "barter deals" booked by Peregrine were directly linked and predicated upon each other.

According to court files, Gardner was hired by Peregrine in 1997 as Vice President of Strategic Acquisitions, was promoted to President and Chief Executive Officer in April 1998, and accepted the title of Chairman of the Board of Directors in July 2000. During his time at the company, Gardner exercised stock options and sold thousands of shares of Peregrine stock, reaping approximately \$8.2 million in net proceeds. Gardner also took annual bonuses from Peregrine that at one point exceeded \$1 million. When Peregrine publicly disclosed its accounting improprieties in May 2002, the company's stock price collapsed. Peregrine later sought federal bankruptcy protection and eventually sold itself to Hewlett-Packard Company. Shareholders have claimed losses in excess of \$3 billion resulting from the fraudulent activities of Gardner and others.

United States Attorney Karen P. Hewitt stated, "The sentencing of former CEO Stephen Gardner is an important milestone demonstrating the commitment of the United States Attorney's Office to combat corporate fraud in San Diego. Gardner and other top executives caused Peregrine to falsify its numbers to investors and took affirmative steps to hide the truth from the public and the authorities. They did so for financial gain and to advance their careers. This case should leave no doubt that stiff penalties await those tempted to engage in corporate fraud and cheat investors."

FBI Special Agent in Charge Keith Slotter commented, "Today's sentencing is a testament to the criminal justice system at work for the American people. Those at Peregrine who were involved with these gross misrepresentations affected thousands of shareholders and workers throughout the country. These types of actions destroy confidence in our financial system and undermine efforts to convince corporate America to play by the rules. This sentencing should assure shareholders, Wall Street, and taxpayers that the FBI and our partners are committed to pursuing those who engage in these types of criminal activities."

United States Attorney Hewitt praised the outstanding efforts of the Federal Bureau of Investigation's San Diego Division and thanked the United States Securities and Exchange Commission's Division of Enforcement for working cooperatively with investigators and attorneys throughout this process.

Gardner was ordered to begin serving his sentence by February 20, 2009.

DEFENDANT

CASE NUMBER: 04CR2605-W

Stephen Parker Gardner

SUMMARY OF CHARGES

- Count 1: Conspiracy - Title 18, United States Code, Section 371
- Count 2: Securities Fraud - Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5
- Count 46: Obstruction of Proceedings Before Departments, Agencies, and Committees - Title 18, United States Code, Section 1505

INVESTIGATING AGENCIES

Federal Bureau of Investigation
United States Securities and Exchange Commission