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13 Counsel for Plaintiff

14 UNITED STATES DISTRICT COURT
15 SOUTHERN DISTRICT OF CALIFORNIA

16 RANDY LEE, on Behalf of Himself and)
17 all Others Similarly Situated,)

18 Plaintiff,)

19 - against -)

20 PEREGRINE SYSTEMS, INC., ARTHUR)
21 ANDERSEN LLP, STEPHEN P.)
22 GARDNER, AND MATTHEW C.)
23 GLESS,)

24 Defendants.)

CIV. NO.

COMPLAINT FOR VIOLATION OF THE
FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

25 Plaintiff ("Plaintiff"), individually and on behalf of all other persons similarly situated,
26 by his undersigned counsel, allege upon personal knowledge as to his own acts and upon the
27 investigation conducted by counsel, which included, among other things, a review of the public
28 announcements made by defendants, Securities and Exchange Commission ("SEC") filings,

1 press releases, and media reports, regarding Peregrine Systems, Inc. (“Peregrine” or the
2 “Company”), as follows:

3 **NATURE OF THE CLAIM**

4 1. This is a shareholders’ class action on behalf of all persons and entities, other than
5 defendants, who purchased or otherwise acquired Peregrine securities between July 19, 2000
6 through May 3, 2002, inclusive (the “Class Period”). Defendants are Peregrine and certain of the
7 Company’s executive officers and directors.
8

9 2. The Class Period begins on July 19, 2000, the date on which Peregrine announced
10 its financial results for the first quarter of fiscal year 2001, ended June 30, 2000. The Class
11 Period ends on May 3, 2002, the last day of trading prior to the Company’s announcement on
12 May 6, 2002 that the Company’s Board of Directors had authorized the audit committee to
13 conduct an internal investigation into potential accounting inaccuracies and the resignation of
14 defendants Gardner and Glass.
15

16 3. Defendants’ misrepresentations caused Peregrine’s common stock price to be
17 artificially inflated during the Class Period. Peregrine’s common stock traded as high as \$35.00
18 per share during the Class Period. Subsequent to the Class Period, Peregrine’s common stock
19 price closed on May 6, 2002 at \$1.58 per share.
20

21 **JURISDICTION AND VENUE**

22 4. This Court has jurisdiction over the subject matter of this action pursuant to
23 Section 27 of the Securities Exchange Act of 1934 (the “Exchange Act”), 15 U.S.C. §78aa, and
24 28 U.S.C. §1331. This action arises under Sections 10(b) and 20(a) of the Exchange Act, 15
25 U.S.C. §78j(b) and §78t(a), and the rules and regulations promulgated there under, including
26 SEC Rule 10b-5, 17 C.F.R. 240.10b-5.
27
28

1 Gardner was appointed Chief Executive officer in April 1998 and serves as president and as
2 director of the Company from April 1998 through July 2000.

3 11. Defendant Matthew C. Gless (“Gless”) was at all relevant times Executive Vice
4 President, Chief Financial Officer, and a director of the Company. Gless joined the Company as
5 corporate controller in April 1996. From October 1998 through October 2000, he served as Vice
6 President, Finance and Chief Accounting Officer. Gless served as Chief Financial Officer and a
7 member of the Board of Directors of the Company since October 2000.
8

9 12. Defendants Gardner and Gless are collectively referred to herein as the
10 “Individual Defendants.”
11

12 13. The Individual Defendants, by reason of their executive positions with Peregrine,
13 board membership and/or representations, were controlling persons of the Company and had the
14 power and influence, and exercised the same, to cause Peregrine to engage in the conduct
15 complained of herein. The Individual Defendants were in a position to control or influence the
16 contents of, or otherwise cause corrective disclosures to have been made in the public
17 dissemination of, the false and misleading information.
18

19 **FACTUAL ALLEGATIONS**

20 14. Founded in 1981, Peregrine claims to be one of the largest software companies in
21 the world. According to its description, the Company provides solutions that enable companies
22 to manage infrastructure and achieve a state of frictionless business. Its solutions reduce costs,
23 improve profitability and release capital, generating a lasting and measurable impact on the
24 productivity of assets and people. Peregrine’s Infrastructure Management solutions manager the
25 entire life cycle of an organization’s assets, from IT equipment and fleets of vehicles to telecom
26 and facility assets. In addition, Peregrine’s Employee Self Service solutions empower
27 employees with anytime/anywhere access to these enterprise resources, services and knowledge,
28

1 resulting in improved productivity and asset utilization. Peregrine's customers include 92% of
2 the Fortune 500 Companies.

3 15. In addition to its direct sales, Peregrine sells software to managed service
4 providers who turn around and resell the software to end-users. The term managed service
5 provider ("MSP") is used to refer to service providers handling the delivery and management of
6 network-based services, applications and equipment. MSPs can be hosting companies or access
7 providers that offer services that can include fully outsourced network management
8 arrangements, including advanced features like IP telephony, messaging and call center, virtual
9 private network (VPN's), managed firewalls, and monitoring /reporting network servers. Most
10 of these services can be performed from outside a company's internal network with a special
11 emphasis placed on integration and certification of Internet security for applications and content.
12 MSPs serve as outsourcing agents for companies, especially other service providers that lack the
13 resources to constantly upgrade or maintain faster and faster computer networks.

14 16. On July 19, 2000, Peregrine issued a release which purported to announce
15 "record" setting financial results for the first fiscal quarter of 2001, the period ended June 30,
16 2000, which stated, in part, the following:

17 Peregrine Systems, Inc., the leading provider of Employee Self-
18 Service, Infrastructure Management and e-Business connectivity
19 solutions, today announced *record results for the first quarter*
20 *ended June 30, 2000. The record first quarter results were driven*
21 *by a 95 percent increase in software license revenues over the*
22 *comparable prior year period and a 93 percent sequential increase*
23 *in Get.It!™ software revenues for the previous quarter.*

24 *Total revenues for the first quarter increased 83 percent to a*
25 *record \$94.3 million, compared with revenues of \$51.6 million in*
26 *the comparable prior year period. Net income excluding*
27 *aggregate acquisition costs and other related charges amounted to*
28 *\$12.1 million or \$0.10 per diluted share for the first quarter*
 compared to \$7.1 million or \$0.07 per diluted share for the
 comparable prior year period. . . .

1
2 In addition to the foregoing, defendant Gardner stated the following:

3 ”Growth in the Get.It! business was very strong this quarter, and
4 continued to reflect customer recognition that Get.Resources!™
5 offers a unique lifecycle approach to the e-procurement process
6 associated with assets used inside our customers’ businesses. We
7 were also very pleased to win some early business, immediately
8 following the completion of the Harbinger acquisition, involving
9 both Get.Resources! and the former harbinger.net, now
10 Get2Connect.netSM, supplier connectivity and market exchange
11 solutions. One of those combined transactions was a multi-million
12 dollar commitment,” stated [defendant] Gardner.” *We were also
13 very pleased to see strong performance from our Infrastructure
14 Management products, including several large transactions and
15 some key competitive wins,” Gardner continued.*

16 17. The statements contained in this July 19, 2000 release, were each materially false
17 and misleading when made as they misrepresented and/or omitted the following adverse facts
18 which then existed and disclosure of which was necessary to make the statements made not false
19 and/or misleading, including:

20 (a) that the Company had improperly booked revenues from indirect channels
21 which were written off in later quarters such that the revenues reported in this quarter were
22 artificially inflated and did not reflect the true financial condition of the Company at this time;

23 (b) that the Company’s operating results were materially overstated as a result
24 of the Company failing to timely write-down the value of revenues recorded from indirect sales
25 which were written off in a later quarter(s), but which write-downs were not disclosed to
26 shareholders;

27 (c) that Peregrine was failing to accurately record revenues and/or write-down
28 impaired or adjusted asset values on a timely basis in accordance with GAAP;

 (d) that Peregrine failed to disclose that it had prematurely recognized up to
\$100 million in revenue from the sale of software to managed service providers during the Class

1 Period; and

2 (e) as a result of the foregoing, defendants' earnings projections and
3 statements about the Company's prospects and outlook were lacking in a reasonable basis at all
4 relevant times.

5
6 18. On October 3, 2000, defendants issued a release which purported to inform
7 investors and analysts that the Company was on track to meet previous Company sponsored
8 guidance for the second fiscal quarter of 2001, the period ended September 31, 2000, and which
9 stated, in part, the following:

10
11 Peregrine Systems, Inc., the leading provider of Infrastructure
12 Management software and e-Business connectivity, *today confirmed that results for the second fiscal quarter, ended
13 September 30, 2000, would meet or exceed prior estimates.*

14
15 *Peregrine said it expects to meet or exceed consensus earnings per
16 share estimates of \$.11 per share and total revenue of \$142
17 million. Earnings per share excludes the effects of non-cash
18 acquisition related charges and financial results are still subject to
19 review by the company's independent auditors. The company also
20 reconfirmed October 24, 2000 as the scheduled announcement date
21 and conference call for the final Q2 results.*

22
23 Steve Gardner, chairman and CEO of Peregrine Systems Inc., said
24 "Normally we would not make any pre-announcement in this
25 situation, but given the under the uncertainty surrounding the
26 company, apparently triggered by a typographical error in a third
27 party's internal communication on Friday of last week, we felt it
28 was important to clear the air and remove some of the uncertainty
surrounding second quarter results."

19. Later, on October 24, 2000, defendants issued a release which confirmed the
October 3, 2000 release, and which purported to announce "record" setting results for the fiscal
second quarter 2001, the period ended September 31, 2000, with revenues of \$142.7 million and
net income of \$0.12 per share, and which stated, in part, the following:

Peregrine Systems, Inc., the leading provider of Employee Self-
Service, Infrastructure Management and e-Business connectivity

1 solutions, today announced record results for the second quarter
2 ended September 30, 2000. The record second quarter results
3 were driven by a 136% increase in software license revenues over
the comparable prior year period. . . .

4 Total revenues for the second quarter increased 147% to a record
5 \$142.7 million, compared with revenues of \$57.8 million in the
6 comparable prior year period. Net income excluding aggregate
7 acquisition costs and other related charges amounted to \$18.3
8 million or \$0.12 per diluted share for the second quarter compared
to \$8.4 million or \$0.08 per diluted share for the comparable prior
year period....

9 Commenting on these purported “record” setting financial results, defendant Gardner stated the
10 following:

11 *“We had a remarkable quarter of growth in our infrastructure*
12 *management solutions and Get.I! employees self service*
13 *solutions,” sated [defendant] Gardner. “We made major strides in*
14 *the integration of our e-commerce efforts with the rest of our*
15 *business and had some very impressive wins. Despite impact from*
16 *the Euro currently decline versus the dollar, we still had a most*
17 *successful quarter, and we are well-poised for future growth in*
18 *every part of the business. This quarter saw a large number of*
19 *new products, technology, and alliances come to fruition, further*
20 *establishing the basis for continued growth in the future.”*

21 20. The statements contained in the October 3 and October 24, 2000 releases, were
22 each materially false and misleading when made as they misrepresented and/or omitted the
23 following adverse facts which then existed and disclosure of which was necessary to make the
24 statements made not false and/or misleading, including:

25 (a) that the Company had improperly booked revenues from indirect channels
26 which were written off in later quarters such that the revenues reported in this quarter were
27 artificially inflated and did not reflect the true financial condition of the Company at this time;

28 (b) that the Company’s operating results were materially overstated as a result
of the Company failing to timely write-down the value of revenues recorded from indirect sales
which were written off in a later quarter(s), but which write-downs were not disclosed to

1 shareholders;

2 (c) that Peregrine was failing to accurately record revenues and/or write-down
3 impaired or adjusted asset values on a timely basis in accordance with GAAP;

4 (d) that Peregrine failed to disclose that it had prematurely recognized up to
5 \$100 million in revenue from the sale of software to managed service providers during the Class
6 Period; and

7 (e) as a result of the foregoing, defendants' earnings projections and
8 statements about the Company's prospects and outlook were lacking in a reasonable basis at all
9 relevant times.

10
11 21. On January 24, 2001, defendants issued a release which again purported to
12 announce "record" setting results for the fiscal their quarter 2001, the period ended December
13 31, 2000, with revenues of \$156.6 million and net income of \$0.15 per share, and which stated,
14 in part, the following:

15
16 *Peregrine Systems, Inc., the leading provider of Infrastructure
17 Management software and e-Markets enablement solutions, today
18 announced record results for the third quarter ended December
19 31,2000. The record third quarter results were driven by a 114%
increase in software license revenues over the comparable prior
year period...*

20
21 *Total revenues for the third quarter climbed by 132% to a \$156.6
22 million, compared with revenues of \$67.5 million in the
23 comparable prior year period. Net income excluding aggregate
24 acquisition costs and other related charges amounted to \$22.6
million or \$0.15 per diluted share for the third quarter compared to
\$8.7 million or \$0.08 per diluted share for the comparable prior
year period...*

25 Commenting on these purported "record" setting financial results, defendant Gardner stated the
26 following:

27 *"Despite uncertainty and turbulence in the economy, particularly
28 in the United States, we exceeded our objectives for the December*

1 *quarter,*” stated [defendant] Gardner. “Europe was exceptionally
2 strong, and in addition to a great quarter for our Get.It product
3 suite, AssetCenter(TM) and our other software applications that
4 are focused upon maximizing financial return on infrastructure
5 assets experienced excellent customer acceptance. We are also
6 very pleased to see continued expansion for our E-Markets Group
7 activity, both with ASP customers and strategic technology
8 alliances,” he added. “Lastly, the acquisition of the Tivoli Service
9 Desk customer and base product set, and the parallel expansion of
10 our relationship with IBM Global Services, provided immediate
11 new business opportunities that are already starting to develop
12 strongly. *This was a very important quarter for Peregrine.*”

13 22. The statements contained in the January 24, 2001 release, were materially false
14 and misleading when made as they misrepresented and/or omitted the following adverse facts
15 which then existed and disclosure of which was necessary to make the statements made not false
16 and/or misleading, including:

17 (a) that the Company had improperly booked revenues from indirect channels
18 which were written off in later quarters such that the revenues reported in this quarter were
19 artificially inflated and did not reflect the true financial condition of the Company at this time;

20 (b) that the Company’s operating results were materially overstated as a result
21 of the Company failing to timely write-down the value of revenues recorded from indirect sales
22 which were written off in a later quarter(s), but which write-downs were not disclosed to
23 shareholders;

24 (c) that Peregrine was failing to accurately record revenues and/or write-down
25 impaired or adjusted asset values on a timely basis in accordance with GAAP;

26 (d) that Peregrine failed to disclose that it had prematurely recognized up to
27 \$100 million in revenue from the sale of software to managed service providers during the Class
28 Period; and

 (e) as a result of the foregoing, defendants’ earnings projections and

1 statements about the Company's prospects and outlook were lacking in a reasonable basis at all
2 relevant times.

3 23. On April 4, 2001, defendants issued a release which purported to inform investors
4 and analysts that the Company was on track to meet previous Company sponsored guidance for
5 the fourth fiscal quarter and year end 2001, the period ended March 31, 2001, and which stated,
6 in part, the following:
7

8 **Peregrine Systems Announces Preliminary Fourth Quarter**
9 **Results**

10 *Revenue and EPS Consistent with Company Guidance and*
11 *Consensus Expectations*

12 Peregrine Systems, Inc., one of the world's leading software
13 companies, today announced *preliminary fourth quarter results in*
14 *line with consensus financial analyst expectations and company*
15 *guidance.*

16 *For the fiscal fourth quarter ended March 31, 2001, the Company*
17 *expects to report license revenues of approximately \$105 million,*
18 *total revenues of approximately \$170 million and earnings per*
19 *share of \$.16....*

20 Again, commenting on these purported "record" setting financial results, defendant Gardner
21 stated the following:
22

23 *"Despite challenging economic conditions worldwide, we were*
24 *able to meet our objectives for the quarter and deliver strong*
25 *profitable results, the sixteenth consecutive quarter we have done*
26 *so. Our success reflects the unique value proposition we bring to*
27 *the market – removing friction, and therefore costs, from business*
28 *processes – especially as companies look for ways to optimize the*
 use of scarce capital," stated [defendant] Gardner." Given the
unusual and highly volatile conditions of the stock market over the
last three days, we decided it was in the best interests of our
shareholders, customers, partners and employees to make these
results available earlier than our scheduled release date."

29 24. Following the publication of this release, the shares of Peregrine rallied over 25%,
30 or over \$5.25 per share, to close trading at \$19.06 per share.

1 25. Later, on April 26, 2001, defendants issued a release which confirmed the April 4,
2 2001 release, and which purported to announce “record” setting results for the fiscal fourth
3 quarter and year end 2001, the period ended March 31, 2001, as follows:
4

5 **Peregrine Systems Confirms Fiscal Fourth Quarter and Year-
6 End Results; Focus on Customer ROI Drives Record**

7 Peregrine Systems, Inc., one of the world’s leading software
8 companies, today released final results for the fiscal fourth quarter
9 and year ended March 31, consistent with preliminary results
10 announced April 4, 2001. *Revenue for the quarter was a record
11 \$171.0 million, an increase of 124 percent from the same quarter a
12 year ago. Net income, excluding non-cash acquisition and other
13 acquisition related charges, increased 148 percent to \$24.8
14 million, or \$.16 per share.*

15 *For the fiscal year, revenue increased 123 percent to \$564.7
16 million from \$253.3 million in the prior year. Excluding non-cash
17 acquisition charges, net income was \$77.8 million, or \$.53 per
18 share, an increase of 128 percent compared with fiscal year 2000.*

19 Commenting on these purported “record” setting financial results, defendant Gardner stated that
20 following:
21

22 *“In the past year, Peregrine has clearly established itself s the
23 leading global provider of integrated infrastructure management
24 and e-Market solutions. We are driven by our vision of creating a
25 highly efficient, frictionless, business environment for our
26 customers. Our results this quarter in the face of challenging
27 economic conditional demonstrate the value of our solutions,”
28 said [defendant] Gardner.” As we enter fiscal 2002, we remain
confidential in our market position and the opportunity we
address. We believe our continued focus on our customer’ return
on investment, combined with the diversity of our revenue base
and industry-wide partnerships will allow us to build long-term
shareholder value. At the same time, we are realistic in our
assessment of current corporate spending patterns, and we are
aligning our business model to improve our productivity and
leverage our strengths.”*

*“We were particularly pleased with the strength of our sales
through managed services providers and our professional services
partners. As we continue to meet major milestones in our
corporate development and build our solutions portfolio, these*

1 relationships become increasingly important to our ability to
2 extend our reach to new customers and markets,” Gardner added.

3 26. Shares of Peregrine continued to rally, closing at \$25.14 per share on April 26,
4 2001. Unbeknownst to shareholders, however, the statements contained in the April 4 and April
5 26, 2001 releases, were materially false and misleading when made as they misrepresented
6 and/or omitted the following adverse facts which then existed and disclosure of which was
7 necessary to make the statements made not false and/or misleading, including:

8 (a) that the Company had improperly booked revenues from indirect channels
9 which were written off in later quarters such that the revenues reported in this quarter were
10 artificially inflated and did not reflect the true financial condition of the Company at this time;

11 (b) that the Company’s operating results were materially overstated as a result
12 of the Company failing to timely write-down the value of revenues recorded from indirect sales
13 which were written off in a later quarter(s), but which write-downs were not disclosed to
14 shareholders;

15 (c) that Peregrine was failing to accurately record revenues and/or write-down
16 impaired or adjusted asset values on a timely basis in accordance with GAAP;

17 (d) that Peregrine failed to disclose that it had prematurely recognized up to
18 \$100 million in revenue from the sale of software to managed service providers during the Class
19 Period; and
20

21 (e) as a result of the foregoing, defendants’ earnings projections and
22 statements about the Company’s prospects and outlook were lacking in a reasonable basis at all
23 relevant times.
24

25 27. On May 25, 2001, defendants issued a release, which purported to announce the
26 highlights of its analyst briefing conference, which was held the prior day, May 24, 2001, at the
27
28

1 Company's headquarters. This release stated, in part, the following:

2 **Peregrine Systems Summarizes Highlights of Analyst Briefing**

3
4 Peregrine Systems, Inc., one of the world's leading software
5 companies, announced highlights of a briefing for financial
6 analysts held at its headquarters on May 24, 2001. Speakers at the
7 briefing included Stephen Gardner, chairman and chief executive
8 officer, Matthew Gless, chief financial officer, Fred Luddy, chief
9 technology officer and Thomas Smith, senior vice president, global
10 marketing. Also making presentations were the presidents of
11 Peregrine's three business groups: Andrew Cahill, president of the
12 Infrastructure Management Group, Louis Blatt, president of the E-
13 Markets Group, and Gary Lenz, president of the Integrated
14 Solutions Group. The entire briefing was broadcast live over the
15 Internet from the company's website.

16 * * * *

17 *[Defendant] Gless, the company's chief financial officer, reviewed*
18 *financial results for the 2001 fiscal year and confirmed revenue*
19 *and earnings guidance previously outlined during the company's*
20 *fourth quarter conference call on April 26, 2001. An audio*
21 *archive of the call is available on the company's website.*
22 *[Defendant] Gless emphasized that this guidance reflects current*
23 *economic conditions and corporate spending patterns, and any*
24 *deterioration in the global economy or the outlook for the second*
25 *half of the year could cause the company to revise its growth*
26 *expectations.*

27 *[Defendant] Gless also reaffirmed acquisition activities as an*
28 *important component of the company's growth strategy, and*
29 *indicated that the company will continue to evaluate acquisition*
30 *and investment opportunities that complement and enhance its*
31 *product offerings or expand its distribution channels. [Defendant]*
32 *Gless also commented that the company may consider raising*
33 *additional capital in support of these activities in the future.*

34 28. Following the publication of this release, shares of Peregrine continued to rally,
35 trading to over \$33.25 per share on May 25, 2001.

36 29. On July 24, 2001, Peregrine issued a press release announcing its financial results
37 for the first quarter of fiscal year 2002. The July 24, 2001 press release stated in relevant part:

1 Peregrine Systems, Inc. (NASDAQ: PRGN), one of the world's
2 leading software companies, today released results for the fiscal
3 first quarter ended June 30. Total revenues for the quarter were a
4 record \$172.0 million, an increase of 82 percent for the same
5 quarter a year ago. Net income, excluding acquisition costs and
6 other related charges, was \$19.5 million, or \$.12 diluted earnings
per share, compared with \$12.1 million, or \$.01 diluted earnings
per share, in the first quarter of fiscal 2001. License revenues were
up 60 percent to \$100.2 million, and service revenues increased
125 percent to \$71.8 million over the same period.

7 * * * *

8 "We were pleased to post significant top-line growth in this
9 challenging economic environment," said Steve Gardner,
10 Peregrine's chairman and CEO. "Our customers are seeking ways
11 to improve their productivity and achieve a rapid return on their
investments. Our results in this quarter reflect our ability to deliver
on these objectives."

12 30. On August 27, 2001, Peregrine announced that it had completed the acquisition of
13 Remedy Corporation following a vote by Remedy shareholders, for combination of Peregrine
14 stock and cash.

15
16 31. On August 14, 2001, the Company filed its First Quarter 10-Q with the SEC,
17 incorporating the financial statements that were included with the July 24, 2001 press release.
18 Defendant Gless signed the First Quarter 10-Q as Executive Vice President and Chief Financial
19 Officer of the Company.

20 32. The defendant's statements in the July 24, 2001 press release and the financial
21 statements contained therein and in the First Quarter 10-Q were materially false and misleading
22 when made as they misrepresented and/or omitted the following adverse facts which then existed
23 and disclosure of which was necessary to make the statements made not false and/or misleading,
24 including:

25
26 (a) that the Company had improperly booked revenues from indirect channels
27 which were written off in later quarters such that the revenues reported in this quarter were
28

1 artificially inflated and did not reflect the true financial condition of the Company at this time;

2 (b) that the Company's operating results were materially overstated as a result
3 of the Company failing to timely write-down the value of revenues recorded from indirect sales
4 which were written off in a later quarter(s), but which write-downs were not disclosed to
5 shareholders;

6 (c) that Peregrine was failing to accurately record revenues and/or write-down
7 impaired or adjusted asset values on a timely basis in accordance with GAAP;

8 (d) that Peregrine failed to disclose that it had prematurely recognized up to
9 \$100 million in revenue from the sale of software to managed service providers during the Class
10 Period; and
11

12 (e) as a result of the foregoing, defendants' earnings projections and
13 statements about the Company's prospects and outlook were lacking in a reasonable basis at all
14 relevant times.
15

16 33. On October 3, 2001, Peregrine issued a press release announcing the Company's
17 preliminary second quarter 2002 results for the period ended September 30, 2001. The October
18 3, 2001 press release stated in relevant part:
19

20 Peregrine Systems, Inc. (NASDAQ: PRGN), one of the world's
21 leading software companies, today announced preliminary results for
22 the second quarter ended September 30, 2001. Peregrine expects to
23 report quarterly revenue of approximately \$175 million. Based on
24 these revenues, the company expects to report net income of
approximately \$.05 per share, excluding acquisition costs and
restructuring charges. The company will report final result on
October 24th.

25 "Like many companies in our industry, the tragic events of
26 September 11 and the subsequent effect on the global economy
27 impacted our September quarter results. However, even during
28 these challenging times, we were able to generate approximately
\$175 million in total revenue, demonstrating the strength of our
product portfolio and the value proposition we deliver to our

1 customers,” stated Steve Gardner, Peregrine’s chairman and chief
2 executive officer. “As we take steps to align our cost structure
3 with the current economic environment and near-term revenue
4 opportunities, we remain confident in our future. We believe our
5 leadership in Infrastructure Management, Employee Relationship
6 Management and B2B [business-to-business] Relationship
7 Management will allow us to generate solid growth and increase
8 our market share over the long-term,” Gardner added.

9
10 34. On October 24, 2001, Peregrine issued a press release confirming these second
11 quarter 2002 results. The October 24, 2001 press release stated in relevant part:

12 Peregrine Systems, Inc. (NASDAQ: PRGN), one of the world’s
13 leading software companies, today released fiscal results for the
14 fiscal second quarter ended September 30. Total revenues for the
15 quarter were a record \$175.0 million, an increase of 23 percent
16 from the \$142.7 million reported in the second quarter of fiscal
17 2001. Net income, excluding acquisition costs and other charges,
18 was \$8.4 million, or \$.05 diluted earnings per share, compared
19 with \$18.3 million, or \$.12 diluted earnings per share, in the
20 second quarter of fiscal 2001.

21 “While these results were disappointing relative to our original
22 expectations, we met several major milestones in improving upon
23 our overall position in the markets we serve. These included
24 completion of the Remedy acquisition, a new strategic partnership
25 with Geac Computer Corp. for distribution and integration of our
26 products, and an OEM agreement with BEA Systems for our e-
27 Business data transformation technology,” stated Steve Gardner,
28 Peregrine’s chairman and CEO.

“Looking to the future, we remain cautiously optimistic as we
continue to extend both the reach and the depth of our offerings,”
said Gardner. “Peregrine is in the early phases of an important
new product cycle, beginning with today’s announcement of the
Xanadu platform for small-to-midsize businesses and the
upcoming release of Business Integration Suite as part of our
business-to-business integration solutions. This will be one of our
most significant periods for new products, as we also will be
launching new releases of our ServiceCenter® and AssetCenter
products and the exciting new Web-based Action Request
System® 5.0 within the next few months. At the same time, we
remain focused on the priorities I outlined on Oct. 3, including
realistic expense management and generating cash from
operations. We have the financial strength, breadth of product and
management talent to emerge from this economic cycle as the
vendor of choice of businesses seeking to maximize return from

1 their assets, their employees, and their business relationships by
2 removing friction from their business processes through the use of
3 our software and services,” Gardner added.

4 35. On November 31, 2001, Peregrine filed its Second Quarter 10-Q with the SEC,
5 which incorporated the financial statements contained in the October 24, 2001 press release.
6 Defendant Gless signed the Second Quarter 10-Q as Executive Vice President and Chief
7 Financial Officer.

8 36. Defendants’ statements in the October 3, and October 24, 2001 press releases and
9 the financial statements contained therein and in the Second Quarter 10-Q were materially false
10 and misleading when made as they misrepresented and/or omitted the following adverse facts
11 which then existed and disclosure of which was necessary to make the statements made not false
12 and/or misleading, including:

14 (a) that the Company had improperly booked revenues from indirect channels
15 which were written off in later quarters such that the revenues reported in this quarter were
16 artificially inflated and did not reflect the true financial condition of the Company at this time;

18 (b) that the Company’s operating results were materially overstated as a result
19 of the Company failing to timely write-down the value of revenues recorded from indirect sales
20 which were written off in a later quarter(s), but which write-downs were not disclosed to
21 shareholders;

22 (c) that Peregrine was failing to accurately record revenues and/or write-down
23 impaired or adjusted asset values on a timely basis in accordance with GAAP;

24 (d) that Peregrine failed to disclose that it had prematurely recognized up to
25 \$100 million in revenue from the sale of software to managed service providers during the Class
26 Period; and
27

28 (e) as a result of the foregoing, defendants’ earnings projections and
Complaint for Violations of the Federal Securities Laws

1 statements about the Company's prospects and outlook were lacking in a reasonable basis at all
2 relevant times.

3 37. On January 2, 2002, Peregrine issued a press release announcing the Company's
4 preliminary third quarter 2002 results for the period ended December 31, 2002. The January 2,
5 2002 press release stated in relevant part:
6

7
8 Peregrine Systems, Inc. (NASDAQ: PRGN), one of the world's
9 leading software companies, today announced preliminary
10 financial results for the third quarter of fiscal 2002 ended
11 December 31, 2001. Peregrine anticipates total revenues for the
12 third quarter to be approximately \$175 million, including license
revenues for the third quarter to be approximately \$1745 million,
including license revenues of approximately \$75 million. Based
on these anticipated revenues, the company expects to report a pro
forma net loss of approximately \$.07 to \$.08 per share.

13 The pro forma loss excludes approximately \$75 million in
14 acquisition costs, including amortization of goodwill and other
15 intangibles associated with acquisitions (the most significant of
16 which are the acquisitions of Harbinger Corporation, Extricity, Inc.
and Remedy Corporation) and restructuring charges associated
with the company's recent reorganization. Including these
charges, the reported net loss is expected to be between \$.32 and
\$.33 per share.

17
18 The company will report final results on January 24, 2002.

19 "Challenging global economic conditions, particularly in Europe,
20 continued to impact our business this quarter. The European
21 economy has yet to show signs of recovery, and although business
22 activity levels increased in North American, most customers
continue to defer as much purchasing activity as they can into
future periods," said Steve Gardner, Peregrine's chairman and CEO.

23 38. On January 24, 2002, Peregrine issued a press release confirming its third quarter
24 2002 results. The January 24, 2002 press release stated in relevant part:

25
26 Peregrine Systems, Inc. (NASDAQ: PRGN), a leading global
27 software company, today released results for the fiscal 2002 third
28 quarter ended Dec. 31. Total revenues for the quarter were \$175.2
million, an increase of 12 percent from the \$156.6 million in
revenues reported in the third quarter of fiscal 2001. For the
quarter, the company posted a pro forma net loss of \$16.1 million,

1 or \$.08 diluted loss per share, compared with pro forma net income
2 of \$22.6 million, or \$.15 diluted earnings per share, in the third
3 quarter of fiscal 2001.

4 The pro forma loss for the third quarter excluded approximately
5 \$72.2 million in acquisition costs and other charges, including
6 primarily the amortization of goodwill and other intangibles
7 associated with past acquisitions, the most significant of which
8 were the acquisitions of Harbinger Corporation, the Tivoli Service
9 Desk product suite, Extricity, Inc. and Remedy Corporation.
10 Including these charges, the reported net loss was \$88.3 million, or
11 \$.45 diluted loss per share.

12 “While we are disappointed in these results, we believe they were
13 largely due to continued global economic weakness, particularly in
14 Europe,” stated Steve Gardner, Peregrine’s chairman and CEO.
15 “We are committed to returning to operating profitability, and we
16 are continuing to take appropriate steps to improve our revenue
17 performance and contain our expenses.”

18 “Peregrine’s competitive position as the leading provider of
19 lifecycle infrastructure management solutions continues to
20 improve,” added Gardner. “Our software products support a
21 unique value proposition, which we are confident will experience
22 strong demand in coming years as companies seek to improve the
23 ROI of their assets and the productivity of their employees... We
24 are laying the foundation now for future growth.”

25 39. On February 14, 2002, Peregrine filed its Third Quarter 10-Q with the SEC,
26 which incorporated the financial statement contained in the January 24, 2002 press release and
27 which was signed by Defendant Gless as Executive Vice President and Chief Financial Officer.

28 40. The defendants’ statements in the January 2, 2002 and January 24, 2002 press
releases and the financial statement contained therein and in the Third Quarter 10-Q were
materially false and misleading when made as they misrepresented and/or omitted the following
adverse facts which then existed and disclosure of which was necessary to make the statements
made not false and/or misleading, including:

(a) that the Company had improperly booked revenues from indirect channels
which were written off in later quarters such that the revenues reported in this quarter were

1 artificially inflated and did not reflect the true financial condition of the Company at this time;

2 (b) that the Company's operating results were materially overstated as a result
3 of the Company failing to timely write-down the value of revenues recorded from indirect sales
4 which were written off in a later quarter(s), but which write-downs were not disclosed to
5 shareholders;

6 (c) that Peregrine was failing to accurately record revenues and/or write-down
7 impaired or adjusted asset values on a timely basis in accordance with GAAP;

8 (d) that Peregrine failed to disclose that it had prematurely recognized up to
9 \$100 million in revenue from the sale of software to managed service providers during the Class
10 Period; and
11

12 (e) as a result of the foregoing, defendants' earnings projections and
13 statements about the Company's prospects and outlook were lacking in a reasonable basis at all
14 relevant times.
15

16 41. On April 5, 2002, Peregrine issued a press release announcing that it was
17 replacing its independent auditor, Arthur Andersen LLP, with KPMG LLP. The April 5, 2002
18 press release stated in relevant part:
19

20 Peregrine Systems, Inc. (NASDAQ: PRGN), a global
21 Infrastructure Management software company, today announced
22 that its Board of Directors has appointed KPMG as its independent
23 auditors, effective immediately. The decision to replace Arthur
24 Andersen LLP as the company's independent auditors was made
25 after a thorough selection process that reviewed several firms,
26 including Arthur Andersen.

27 "Arthur Andersen has served as Peregrine's independent auditors
28 since our initial public offering in 1997, and we have the highest
regard for our audit team's work ethic and professionalism," said
Steve Gardner, Peregrine's chairman and chief executive officer.
"However, in light of the current uncertainties at Arthur Andersen,
we felt it was in the best interest of our company and shareholders
to retain KPMG as our independent auditors at this time."

1 Fourth Quarter Earnings Release and Conference Call Peregrine
2 plans to release fourth quarter and audited fiscal year-end results
after the market closes on May 2.

3 Management will host a conference call to discuss these results on
4 May 2.

5 42. After the close of trading on April 30, 2002, Peregrine announced that it was
6 postponing its fourth quarter and year-end results. In an April 30, 2002 press release, the
7 Company stated:

8 Peregrine Systems, Inc. (NASDAQ: PRGN, announced today that it
9 will delay its planned earnings release and conference call related to
10 results for the fiscal fourth quarter and full fiscal year 2002, pending
continued audit activities by KPMG, the company's independent
11 auditors. The date for these events had previously been set for May
2, 2002.

12 KMPG was engaged by Peregrine earlier this month to replace
13 Arthur Andersen LLP for the audit of the company's recently
completed fiscal year. The company indicated that it would provide
14 further information relative to the announcement of results during the
week of May 6, 2002.

15 43. One or about May 1, 2002, the Dow Jones Service reported that, when asked, a
16 Company spokeswoman had said that KPMG, which was hired on April 5 after Arthur Andersen
17 was fired by the Company, "needed more time" to complete its review.

18 44. Before the market opened on Monday, May 6, 2002, Peregrine issued a press
19 release announcing an internal accounting investigation and the resignation of defendants
20 Gardner and Gless. The May 6, 2002 press release stated in relevant part:

21
22 Peregrine Systems, Inc. (NASDAQ: PRGN - News) announced
23 today that the board of directors has authorized the audit
committee of the board to conduct an internal investigation into
24 potential accounting inaccuracies brought to the attention of the
audit committee by KPMG, the company's independent auditors.
25 KPMG was engaged by Peregrine in April to replace Arthur
Andersen LLP for the audit of the company's recently completed
26 fiscal year.

27 The scope and magnitude of these matters have not been
28 determined. Based on the preliminary information reviewed to

1 date, certain transactions involving revenue recognition
2 irregularities, totaling as much as \$100 million, have been called
3 into question and may have been recorded during periods in fiscal
4 2001 and 2002. These transactions were recorded initially as
5 revenue from the company's indirect channels and may have been
6 written off in later quarters. These channel transactions and other
7 accounting matters to be investigated may impact financial results
8 for periods in fiscal 2002 and prior. Peregrine has informed the
9 staff of the SEC of its audit committee's interval investigation and
10 will keep the SEC informed of its progress.

11 Additionally, the board announced the resignations of Steve
12 Gardner, chairman of the board and chief executive officer, and
13 Matt Gless, chief financial officer, executive vice president of
14 finance and also a director on the board.

15 45. Peregrine's stock price fell 61 percent in pre-market trading on Monday, May 6,
16 2002, after this disclosure that it was investigating \$100 million of potential accounting
17 inaccuracies and that its two top officers resigned. On that day, the Company's stock opened at
18 \$0.99, down \$1.58 per share from a close of \$2.57 on Friday, May 3, 2002.

19 **VIOLATIONS OF GAAP AND SEC REPORTING RULES**

20 46. During the Class Period, defendants materially misled the investing public,
21 thereby inflating the price of the Company's securities, by publicly issuing false and misleading
22 statements and omitting to disclose material facts necessary to make defendants' statements, as
23 set forth herein, not false and misleading. Said statements and omissions were materially false
24 and misleading in that they failed to disclose material adverse information and misrepresented
25 the truth about the Company, its financial performance, accounting, reporting, and financial
26 condition in violation of the federal securities laws and GAAP.

27 47. GAAP consists of those principles recognized by the accounting profession as the
28 conventions, rules, and procedures necessary to define accepted accounting practice at the
particular time. Regulations S-X, to which the Company is subject as a registrant under the
Exchange Act, 17 C.F.R. 210.4-01(a)(1), provides that financial statements filed with the SEC

1 which are not prepared in compliance with GAAP, are presumed to be misleading and
2 inaccurate. SEC Rule 13a-13 requires issuers to file quarterly reports.

3 48. SEC Rule 12b-20 requires that periodic reports contain such further information
4 as is necessary to make the required statements, in light of the circumstances under which they
5 are made, not misleading.
6

7 49. In addition, Item 303 of Regulation S-K requires that, for interim periods, the
8 Management Division and Analysis Section (“MD&A”) must include, among other things, a
9 discussion of any material changes in the registrant’s results of operations with respect to the
10 most recent fiscal year-to-date period for which an income statement is provided. Instructions to
11 Item 303 require that the this discussion identify any significant elements of registrant’s income
12 or loss from continuing operations that are not necessarily representative of the registrant’s
13 ongoing business, Item 303(a)(2)(ii) to Regulation S-K requires the following discussion in the
14 MD&A of a company’s publicly filed reports with the SEC:
15

16 Describe any known trends or uncertainties that have had or that
17 the registrant reasonably expects will have a material favorable or
18 unfavorable impact on net sales or revenues or income from
19 continuing operations. If the registrant knows of events that will
20 cause a material change in the relationship between costs and
21 revenues (such as known future increases in costs of labor or
22 materials or price increases or inventory adjustments), the change
23 in relationship shall be disclosed.

22 Paragraph 3 of the Instructions to Item 303 states in relevant part:

23 The discussion and analysis shall focus specifically on material
24 events and uncertainties known to management that would cause
25 reported financial information not to be necessarily indicative of
26 future operating results or of future financial condition. This
27 would include descriptions and amounts of (A) matters that would
28 have an impact on future operations and have not had an impact in
the past....

1 50. The GAAP requirement for recognition of an adequate provision for foreseeable
2 costs and an associated allowance applies to interim financial statements as required by
3 Accounting Principles Board Opinion No. 28. Paragraph 17 of this authoritative pronouncement
4 states that:

6 The amounts of certain costs and expenses are frequently subjected
7 to year-end adjustments even though they can be reasonably
8 approximated at interim dates. To the extent possible such
9 adjustments should be estimated and the estimated costs and
expenses assigned to interim periods so that the interim periods
bear a reasonable portion of the anticipated annual amount.

10 51. The Company's financial statements contained in the fiscal 2001 Form 10-K and
11 quarterly reports filed with the SEC on Forms 10-Q for the quarterly periods throughout the
12 Class Period were presented in a manner that violated the principle of fair financial reporting and
13 the following GAAP, among others:

14 (a) The principle that financial reporting should provide information that is
15 useful to present and potential investors and creditors and other users in making rational
16 investment, credit and similar decisions (FASB Statement of Concepts No. 1).

18 (b) The principle that financial reporting should provide information about an
19 enterprise's financial performance during a period (FASB Statement of Concepts No. 1).

20 (c) The principle that financial reporting should be reliable in that it
21 represents what it purports to represent (FASB Statement of Concepts No. 2).

22 (d) The principle of completeness, which means that nothing material is left
23 out of the information that may be necessary to ensure that it validly represents underlying
24 events and conditions (FASB Statement of Concepts No. 2).

25 (e) The principle that conservatism be used as a prudent reaction to
26 uncertainty to try to ensure that uncertainties and risks inherent in business situations are
27

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1 adequately considered (FASB Statement of Concepts No. 2).

2 (f) The principle that disclosure of accounting policies should identify and
3 describe the accounting principles followed by the reporting entity and the methods of applying
4 those principles that materially affect the financial statements (APB Opinion No. 22).

5 (g) The principle that losses be accrued for when a loss contingency exists
6 (Statement of Financial Accounting Standards No. 5).

7 (h) The principle that if no accrual is made for a loss contingency, then
8 disclosure of the contingency shall be made when there is at least a reasonable possibility that a
9 loss or an additional loss may have been incurred (Statement of Financial Accounting Standards
10 No. 5).

11 (i) The principle that contingencies and other uncertainties that affect the
12 fairness of presentation of financial data at an interim date shall be disclosed in interim reports in
13 the same manner required for annual reports (APB Opinion No. 28).

14 (j) The principle that disclosures of contingencies shall be repeated in interim
15 and annual reports until the contingencies and have been removed, resolved, or have become
16 immaterial (APE Opinion No. 28).

17 (k) The principle that management should provide commentary relating to the
18 effects of significant events upon the interim financial results (APB Opinion No. 28).

19 52. In addition, during the Class Period, defendants violated SEC disclosure rules:

20 (a) Defendants failed to disclose the existence of known trends, events or
21 uncertainties that they reasonably expected would have a material, unfavorable impact on net
22 revenues or income or that were reasonably likely to result in the Company's liquidity
23 decreasing in a material way, in violation of Item 303 of Regulation S-K under the federal
24 securities laws (17 C.F.R. 229.303), and that failure to disclose the information rendered the
25
26
27
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1 statements that were made during the Class Period materially false and misleading; and

2 (b) By failing to file financial statements with the SEC that conformed to the
3 requirements of GAAP, such financial statements were⁴ presumptively misleading and
4 inaccurate pursuant to Regulations S-X, 17 C.F.R. §210.4-01(a)(1).
5

6 53. Defendants were required to disclose, in the Company's financial statements, the
7 existence of the material facts described herein and to appropriately recognize and report assets,
8 revenues, and expenses in conformity with GAAP. The Company failed to make such
9 disclosures and to account for and to report its financial statements in conformity with GAAP.
10 Defendants knew, or were reckless in not knowing, the facts which indicated that the fiscal 2001
11 Form 10-K and all of the Company's interim financial statements, press releases, public
12 statements, and filings with the SEC, which were disseminated to the investing public during the
13 Class Period, were materially false and misleading for the reasons set forth herein. Had the true
14 financial position and results of operations of the Company been disclosed during the Class
15 Period, the Company's common stock would have traded at prices well below that which it did.
16

17 **SCIENTER**

18 54. Because of their positions with the Company, defendants Gardner and Gless
19 controlled and/or possessed the power and authority to control the contents of the financial
20 statements and press releases. These defendants prepared or were provided with copies of the
21 Company's press releases and financial statements alleged herein to be misleading prior to or
22 shortly before their issuance and/or had the ability and opportunity to prevent their issuance or
23 cause them to be corrected.
24

25 55. The Individual Defendants knew of, or severely recklessly disregarded, the
26 adverse, non-public information about Peregrine's business and operations as well as its
27 finances, markets, and present and future business prospects because their executive and/or
28

1 Class are defendants, the officers and directors of the Company at all relevant times, members of
2 their immediate families, parents, subsidiaries, officers, directors and affiliates of the corporate
3 defendant, any entity in which any defendant has a controlling interest, directly or indirectly, and
4 their legal representatives, heirs, successors or assigns.
5

6 58. The members of the Class are so numerous that joinder of all members is imprac-
7 ticable. Throughout the Class Period, Peregrine securities were actively traded on the NASDAQ
8 Exchange. While the exact number of Class members can only be ascertained through appropri-
9 ate discovery, Plaintiff believes that Class members number in the thousands.

10 59. Plaintiff's claims are typical of the claims of the members of the Class. Plaintiff
11 and all members of the Class sustained damages as a result of defendants' wrongful conduct
12 complained of herein.
13

14 60. Plaintiff will fairly and adequately protect the interests of the members of the
15 Class and has retained counsel competent and experienced in class and securities litigation.
16 Plaintiff has no interest that is in conflict with those of the Class.
17

18 61. Common questions of law and fact exist as to all members of the Class and
19 predominate over any questions solely affecting individual members of the Class. Among the
20 questions of law and fact common to the Class are:

21 (a) whether the federal securities laws were violated by defendants' acts as
22 alleged herein;

23 (b) whether statements made by defendants to the investing public during the
24 Class Period misrepresented material facts about the business, operations and finances of
25 Peregrine;
26

27 (c) whether defendants pursued the fraudulent scheme and course of business
28 alleged herein;

1 (d) whether defendants acted knowingly or severely recklessly;
2 (e) whether the market price of Peregrine securities during the Class Period
3 was manipulated or artificially inflated due to the activities complained of herein; and
4
5 (f) whether the members of the Class have sustained damages and, if so, the
6 proper measure of damages.

7 62. A class action is superior to all other available methods for the fair and efficient
8 adjudication of this controversy since joinder of all members is impracticable. Because the
9 damages suffered by individual Class members may be relatively small, the expense and burden
10 of individual litigation makes it virtually impossible for them to individually seek redress for the
11 wrongful conduct alleged.

12
13 63. Plaintiff knows of no difficulty that will be encountered in the management of this
14 litigation that would preclude its maintenance as a class action.

15 64. The names and addresses of the record owners of Peregrine common stock
16 purchased during the Class Period are available from the Company or its transfer agent or agents.
17 Notice can be provided to such record owners via first class mail using techniques and a form of
18 notice similar to those customarily used in class actions.
19

20 **APPLICABILITY OF PRESUMPTION OF RELIANCE:
21 FRAUD-ON-THE-MARKET DOCTRINE**

22 65. At all relevant times, the market for Peregrine securities was an efficient market
23 for the following reasons, among others:

24 (a) Peregrine securities met the requirements for public listing, and was listed
25 and actively traded on the NASDAQ National Market System, a highly efficient market;

26 (b) As a regulated issuer, Peregrine filed periodic public reports with the SEC;
27
28

1 (c) Peregrine regularly issued press releases that were carried by national
2 news wires. Each of these releases was publicly available and entered the public marketplace.

3 66. As a result of the foregoing, the market for Peregrine securities promptly digested
4 current information with respect to Peregrine from all publicly available sources and reflected
5 such information in Peregrine's stock price. Under these circumstances, all purchasers of
6 Peregrine securities during the Class Period suffered similar injury through their purchase of
7 stock at artificially inflated prices and a presumption of reliance applies.
8

9 **NO SAFE HARBOR**

10 67. The statutory safe harbor provided for forward-looking statements under certain
11 circumstances does not apply to any of the allegedly false statements pleaded in this Complaint.
12 The vast majority of the specific statements pleaded herein were not "forward-looking
13 statements" but were "hard" statements of financial results. To the extent there were any
14 forward-looking statements, there were no meaningful cautionary statements identifying
15 important factors that could cause actual results to differ materially from those in the purportedly
16 forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply
17 to any forward-looking statements pleaded herein, defendants are liable for those false forward-
18 looking statements because at the time each of those forward-looking was made the particular
19 speaker knew that the particular forward-looking statement was false, and/or the forward-looking
20 statement was authorized and/or approved by an executive officer of Peregrine who knew that
21 those statements were false when made.
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COUNT I
AGAINST ALL DEFENDANTS FOR VIOLATIONS
OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5

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68. Plaintiff repeats and realleges each and every allegation contained in the above paragraphs, as if fully set forth herein. This claim is asserted against all defendants.

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69. The defendants, and each of them, carried out a plan, scheme and course of conduct which was intended to and did: (a) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (b) artificially inflate and maintain the market price of Peregrine securities; and (c) cause members of the Class to acquire Peregrine securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

70. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements made not misleading; and (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon the acquirers of Peregrine securities in an effort to maintain artificially high market prices for Peregrine's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein and/or as controlling persons as alleged below.

71. In addition to the duties of full disclosure imposed on defendants as a result of their making of affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, the defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. 210.01 et seq.) and S-K (17 C.F.R. 229.10 et seq.) and other SEC regulations, including accurate and truthful information with respect to the Company's operations and performance so that the market prices

1 of the Company's publicly traded securities would be based on truthful, complete and accurate
2 information.

3 72. Defendants, individually and in concert, directly and indirectly, by the use of
4 means and instrumentalities of interstate commerce and/or of the mails, engaged and participated
5 in a continuous course of conduct to conceal adverse, material information about the Company's
6 financial results, business, operations, and future outlook as specified herein. Peregrine and the
7 Individual Defendants employed devices, schemes and artifices to defraud, while in possession
8 of material, adverse, non-public information and engaged in acts, practices, and a course of
9 conduct as alleged herein in an effort to assure open market purchasers of Peregrine securities
10 concerning the value and performance and continued substantial growth of Peregrine, which
11 included the making of, or the participation in the making of, untrue statements of material facts
12 and omitting to state material facts necessary in order to make the statements made about the
13 Company's financial and business operations in the light of the circumstances under which they
14 were made, not misleading, as set forth more particularly herein, and engaged in transactions,
15 practices and a course of business which operated as a fraud and deceit upon the market for
16 Peregrine securities.
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20 73. The Individual Defendants' primary liability arises from the following facts: (a)
21 the Individual Defendants were high-level executives at the Company, were members of the
22 Company's management team, and/or were members of the Board of Directors; (b) the
23 Individual Defendants, by virtue of their responsibilities and activities as senior officers and
24 directors of the Company, were privy to and participated in the drafting, reviewing and/or
25 approving the misleading statements, releases, reports and other public representations of and
26 about Peregrine, and/or signed the Company's public filings with the SEC, which public filings
27 contained the allegedly materially misleading statements; (c) the Individual Defendants knew or
28

1 had access to the material, adverse, non-public information about Peregrine's financial results
2 and business, which were not disclosed; and (d) the Individual Defendants were aware of the
3 Company's dissemination of information to the investing public which they knew or severely
4 recklessly disregarded was materially false and misleading.

6 74. The defendants had actual knowledge of the misrepresentations and omissions of
7 material facts set forth herein, or acted with severely reckless disregard for the truth in that they
8 failed to ascertain and to disclose such facts, even though such facts were available to them.
9 Such defendants' material misrepresentations and/or omissions were done knowingly or severely
10 recklessly and for the purpose and effect of concealing Peregrine's operations and business
11 affairs from the investing public and supporting the artificially inflated price of its securities. If
12 they did not have actual knowledge of the misrepresentations and omissions alleged, defendants
13 were severely reckless in failing to obtain such knowledge by deliberately refraining from taking
14 those steps necessary to discover whether those statements were false or misleading.

16 75. As a result of the dissemination of the materially false and misleading information
17 and failure to disclose material facts, as set forth above, the market price of Peregrine securities
18 was artificially inflated throughout the Class Period. In ignorance of the fact that the market
19 price of Peregrine securities was artificially inflated, and relying directly or indirectly on the
20 false and misleading statements made by defendants, or upon the integrity of the market in which
21 the common stock trades, and the truth of any representations made to appropriate agencies and
22 to the investing public, at the times at which any statements were made, and/or on the absence of
23 material adverse information that was known or severely recklessly disregarded by defendants
24 but not disclosed in public statements by defendants, Plaintiff and the other members of the
25 Class purchased Peregrine securities at artificially high prices and were damaged thereby.
26
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1 statements were issued and had the ability to prevent the issuance of the statements or cause the
2 statements to be corrected.

3 81. In particular, the Individual Defendants had direct involvement in the day-to-day
4 operations of the Company and therefore, are presumed to have had the power to control or
5 influence the particular transactions giving rise to the securities violations as alleged herein, and
6 exercised the same.

7
8 82. As set forth above, Peregrine violated Section 10(b) and Rule 10b-5 by its acts
9 and omissions as alleged in this Complaint. By virtue of their positions as controlling persons of
10 Peregrine, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.
11 As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other
12 members of the Class suffered damages in connection with their acquisition of Peregrine
13 securities.

14
15 **PRAYER FOR RELIEF**

16 1. Determining that this action is a proper Class action under Rule 23 of the Federal
17 Rules of Civil Procedure;

18 2. Awarding compensatory damages in favor of plaintiff and the other Class
19 members against all defendants for all damages sustained as a result of defendants' wrongdoing,
20 in an amount to be proven at trial, including interest thereon;

21 3. Awarding plaintiff and the Class their reasonable costs and expenses incurred in
22 this Action, including counsel fees and expert fees; and
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24 4. Such other and further relief as the Court may deem just and proper.
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PLAINTIFFS DEMAND A TRIAL BY JURY

Plaintiff hereby demands a trial by jury.

Dated: May 17, 2002

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