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Peregrine fraud trial ends in hung jury

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A federal judge declared a mistral Friday morning in the Peregrine Systems financial-fraud trial after the jury told him it was deadlocked in deliberations over all counts for all four defendants.

There was no immediate word on whether prosecutors will attempt to retry former Peregrine executives Gary Lee Lenz and Joseph C. Reichner; former accounting manager Patrick J. Towle; and the company's outside auditor, former Arthur Andersen partner Daniel P. Stulac.

The jury deliberated for two weeks after its 13 week trial.

None of the defendants took the stand in his own defense during the trial before U.S. District Judge Thomas J. Whelan.

The four defendants were the first to go to trial on federal criminal charges conspiracy and fraud after the software company imploded in 2002 amid a corporate accounting scandal. At least 10 others have pleaded guilty in connection with the scheme that cost investors billions of dollars after it was revealed.

Testimony during the first few weeks of the case showed how Peregrine executives concocted phony sales deals to boost the company's revenue.

Former chief executive Stephen F. Gardner, who pleaded guilty to federal charges in March, broke a five-year silence to testify as a government witness.

He testified that top Peregrine executives discussed falsely inflating financial results in order to meet goals set by its board.

Lawyers for former Peregrine board chairman and Padres owner John Moores have said he and other non-executive Peregrine board members were unaware of the bogus sales deals and other deceptions.

During its bankruptcy reorganization in 2003, Peregrine disclosed it had overstated its revenue by $509 million and understated its losses by $2.6billion over a 33-month period that began in April 1999.

Federal prosecutors argued that the defendants willfully gave investors a false picture of their company.

The defendants attorneys argued that their clients never profited from the fraud by selling stock or exercising options, did not willfully join in the fraud and relied on information from others at Peregrine.

During the tech boom of the late 1990s, Peregrine was a fast-growing story. So most of the fraudulent accounting practices that were found focused on pumping up sales revenue.

Some software sales deals were backdated so they could help boost results in a particular quarter. Other deals were falsified with the help of outside consultants who acted as resellers of Peregrines software.

The accounting charade began to unravel in late 2001 when the Securities and Exchange Commission began investigating a "software swap" deal with Critical Path in the San Francisco Bay Area.

The revelation of fraud drove the company into bankruptcy. It emerged from bankruptcy in August 2003 and was acquired by Hewlett-Packard in 2005.