KPMG LLP Sanctioned by Judge for Hiding Documents in $50 Million Lawsuit Filed Against ``Big Four'' Accounting Firm by Targus Group International, Inc.

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SANTA ANA, Calif.--(BUSINESS WIRE)--July 17, 2005--In an Order issued Wednesday, July 13, 2005, Orange County Superior Court Judge Geoffrey T. Glass sanctioned KPMG LLP for hiding critical documents in a $50 million accounting malpractice lawsuit brought against the firm by leading mobile computer case and accessory supplier Targus Group International, Inc. The Court concluded in its ruling that KPMG "withheld or delayed in producing many responsive documents in order to gain unfair advantage."

Judge Glass sanctioned KPMG by ordering, among other things, that Targus will be allowed to present evidence at trial of KPMG's recklessness when performing audits and will be entitled to seek punitive damages. Judge Glass further directed that the jury will be instructed that KPMG failed to produce requested documents and "misled Targus about the existence and nature of those documents" and that the jury may consider KPMG's conduct when reaching its verdict. Judge Glass also ordered KPMG to pay Targus $30,000 for KPMG's "abuse of the discovery process." Trial in the matter is set for September 19, 2005. Targus Group International, Inc. v. KPMG LLP, Case Number 03CC02302.

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On January 30, 2003, Targus filed suit against KPMG LLP, which is headquartered in New York and has offices throughout the United States. Targus, a privately-held, multinational corporation based in Anaheim, CA, is represented by lead counsel Bruce A. Broillet and Michael J. Avenatti with the Santa Monica, CA law firm of Greene Broillet & Wheeler, LLP, along with co-counsel John C. O'Malley of the Newport Beach law firm of Call, Jensen & Ferrell and Michael Q. Eagan of San Francisco. Targus' original complaint alleged professional malpractice by KPMG. Targus will now be allowed to amend its complaint to allege recklessness and seek punitive damages.

In June 2005, Targus moved for sanctions against KPMG, including an order holding KPMG in contempt of court, and/or, in the alternative, for issue and/or evidentiary sanctions plus other and further relief as the Court deemed proper. Targus also sought sanctions against KPMG's counsel, Ms. Cheryl D. Justice and Gibson Dunn & Crutcher LLP.

Targus based its motions on KPMG's flagrant discovery abuse and other brazen litigation misconduct spanning over a two year time period from 2003 through 2005. Targus alleged that KPMG and its counsel intentionally hid and failed to produce to Targus critical "smoking gun" documents regarding its audit and business policies, and training programs in effect during the years 1996 to 2001. Targus was ultimately able to discover the existence of these documents, nearly all of which KPMG had stored on CDs in a KPMG library, earlier this year only through Targus' own continuing investigation. Targus further alleged in its motions that KPMG and its counsel, and in particular Cheryl Justice, had made repeated misrepresentations to the Court regarding the documents in an effort to achieve results favorable to KPMG.

"Targus applauds the Court for sending a strong message to KPMG and its lawyers that conduct which smacks of gamesmanship will not and cannot be tolerated in this or any other lawsuit," said Michael V. Ward, General Counsel for Targus. "Targus looks forward to the trial in this matter and is confident that the jury, when presented with evidence of KPMG's conduct, will act appropriately."

"This case has been rife with unprecedented bad faith and misconduct by KPMG," stated Bruce A. Broillet. "It is one thing to defend a high-stakes lawsuit, it is another to defy the very tenets of our legal system. We hope that the Court's ruling will strike a chord with KPMG."

"Hiding documents and misleading courts unfortunately appears to have become the norm for KPMG and other large financial services firms when faced with litigation," stated Michael J. Avenatti. "From Morgan Stanley's conduct in the lawsuit brought by Ronald Perelman to Arthur Anderson and AIG, there can be little doubt that many companies will stop at nothing to `win' a big case. For KPMG and its lawyers to engage in this behavior at the same time the Department of Justice is considering indicting the firm for obstruction of justice is shameful."

"The judge did the right thing; KPMG's misrepresentations and bad faith tactics left him no other choice," said John C. O'Malley, Targus' co-counsel who argued the motions. "It would not surprise me if additional sanctions were later imposed on KPMG in this case."

From 1993 through September 2001, Targus employed KPMG as its global auditors and business and tax consultants. Beginning in 1997 and continuing through early August 2001, Targus' then Chief Financial Officer, William Anthony Lloyd, embezzled approximately $40 million from Targus by utilizing the company's credit facilities and cash for his personal benefit. In connection with attempting to hide his embezzlement and unbeknown to the company, Lloyd created false and fraudulent entries on the company's books and records, all of which went undetected by KPMG during the course of its numerous audits for the company.

In August 2001, Targus' management discovered that Lloyd, a U.K. citizen, had been embezzling company funds and immediately reported it to federal authorities. Lloyd was subsequently arrested by the Federal Bureau of Investigation on September 3, 2001 when his flight from London landed at Los Angeles International Airport. On November 13, 2001, Lloyd appeared in federal court and pled guilty to 15 counts of wire fraud associated with the embezzlement. He was sentenced to 37 months in federal prison on December 2, 2002, and in the Spring of 2004 was released and deported to the United Kingdom.

By way of its lawsuit, Targus alleges that had KPMG competently audited Targus' financial statements and met its professional obligations, Targus would have been alerted to Lloyd's embezzlement years before August 2001 and would not have suffered significant financial harm. Instead, according to Targus, KPMG recklessly and negligently performed its audits for Targus, including by way of failing to perform the most basic audit procedures and assigning incompetent, inexperienced, and in some instances, unlicensed accountants to supervise and manage Targus' audits. Among the auditors KPMG assigned to Targus was David A. Hori, a KPMG audit manager suspended by the Securities and Exchange Commission in October 2004 for engaging in improper professional conduct as an auditor. As a result of KPMG's recklessness, Targus alleges that it has suffered approximately $50 million in embezzlement related losses.

Editor's Note:

Plaintiff Targus (www.targus.com) is based in Anaheim, CA, and its General Counsel is Michael V. Ward, Telephone: 714.765.5555, ext. 224. The company is represented by Bruce A. Broillet and Michael J. Avenatti with the Santa Monica, CA law firm of Greene Broillet & Wheeler, LLP (www.greene-broillet.com), Telephone: 310.576.1200; John C. O'Malley and Ward J. Lott with the Newport Beach, CA law firm of Call, Jensen & Ferrell (www.calljensen.com), Telephone: 949.717.3000; and Michael Q. Eagan of San Francisco, CA, Telephone 415-765-4600.

Defendant KPMG (www.us.kpmg.com) is based in New York City and its General Counsel is Claudia Taft, Telephone: 212.909-5400. KPMG is represented by Cheryl D. Justice with the Los Angeles, CA office of Gibson, Dunn & Crutcher LLP (www.gdclaw.com), Telephone 213.229.7470.

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