

The Household Defendants respectfully submit this Status Report in advance of the May 31, 2007 Status Conference to summarize (i) the motions that are pending before the Court, and to request that one be withdrawn or dismissed as moot, and (ii) the briefs and other submissions made by the parties with respect to the approximately 400 boxes of Ernst & Young (“E&Y”) work papers and January 2004 draft final report that were prepared by E&Y during the July 2002-2004 Compliance Engagement.

1. Pending Motions

There are four motions pending before the Court:

a. Plaintiffs’ Motion to Compel Household to Produce Documents of HSBC Holdings plc and Morgan Stanley International Limited. This motion, filed by Plaintiffs on September 21, 2006, was mooted in part by the Court’s issuance of letters of request for third party discovery under the Hague Convention, with Defendants’ consent. On October 19, 2006, after Defendants had filed an opposition, the Court granted Plaintiffs’ request to table this motion. During the April 27, 2007 Status Conference, Plaintiffs noted that the last Morgan Stanley deposition was scheduled for May 1, 2007 (and it occurred on that date). In response to the Court’s question, “So will that dispose of the motion then?” Plaintiffs’ counsel responded, “It should Judge” and “We will let you know by next Friday” *i.e.*, by May 4, 2007. (April 27, 2007 Transcript at 4-5, attached hereto at Tab A) Plaintiffs did not provide their promised notification by May 4 and have not done so to date. As a result, at the May 31 conference, Defendants will request either that Plaintiffs withdraw this motion or that the Court dismiss the motion as moot.

b. Plaintiffs' Motion to Compel Production of the Ernst & Young Work Papers. Plaintiff filed this motion on February 22, 2007. On March 5, 2007, the Court continued the portion of the motion that sought production of the 400 boxes of E&Y work papers relating to the July 2002 Compliance Engagement. The E&Y work papers, and E&Y's January 2004 draft final report to Household's General Counsel, are the subject of briefs filed by the parties as to these documents, and of several related submissions by Defendants to the Court, all of which are discussed in paragraph 2 below.

c. Defendants' Motion to Compel Compliance with Interrogatories. On May 4, 2007, Defendants moved to compel Plaintiffs to serve proper responses to two interrogatories, one of which had been the subject of a prior Order of the Court requiring compliance. The first interrogatory requires Plaintiffs to identify "the percentage or number of Household loans that included improperly imposed or undisclosed prepayment penalties." In a March 14, 2007 Order, the Court had directed Plaintiffs to answer this interrogatory. The second interrogatory asks Plaintiffs to disclose what "truth" they contend was revealed to the market by each of 14 alleged "corrective disclosures" that were previously identified by Plaintiffs. Defendants also are seeking sanctions for Plaintiffs' defiance of the Court's March 14 Order, including payment of Defendants' costs and fees incurred in bringing the motion to compel and a recommendation to Judge Guzman that Plaintiffs be precluded from introducing evidence regarding the quantification or materiality of the alleged practices at trial or on summary judgment. Plaintiffs filed their Response to this motion on May 11, 2007 and Defendants' Reply was filed on May 18, 2007. This motion is now fully briefed.

d. Defendants' Motion for Partial Reconsideration and Clarification of the Court's April 27, 2007 Order. On April 24, 2007, Plaintiffs filed a motion to compel

production from Household of E&Y Compliance Engagement documents (other than those covered by the Court's December 6, 2006 Order and the Orders regarding the E&Y work papers). At the April 27, 2007 status conference, the Court indicated that it would notify the parties if briefing on this motion were required. In its April 27, 2007 Order, the Court granted Plaintiffs' motion and directed Defendants (i) to produce all Household documents relating to the E&Y Compliance Engagement created during the Class Period and (ii) to log on a privilege log all such documents created after the Class Period. On May 9, 2007, Defendants filed a motion seeking reconsideration of this ruling. This motion is fully briefed. As this motion concerns the E&Y Compliance Engagement, it is discussed further in paragraph 2(b) below.

2. E&Y's Compliance Engagement Work Papers and Draft Report

As an initial matter, before turning to the Court's April 27, 2007 Order, there is an unresolved matter raised by the Court during the April 12, 2007 status conference pertaining to the approximately 400 boxes of E&Y's Compliance Engagement work papers. During that conference, the Court instructed Plaintiffs to provide information about what Plaintiffs received in discovery from Household that is similar to the material in the Compliance Engagement. The Court said: "I want to know on the record from the Plaintiffs what of these documents do you have already." The Court explained: "[I]f you have similar information that Ernst & Young I want this record to be clear — if you have either parallel information . . . some of this material, even if not in the same form, as Ernst & Young, that you had some of the same background material, and I wanted a statement about that." (4/12/07 Transcript at 20-21, 24, attached hereto as Exhibit B) To date, Plaintiffs have not complied with the Court's direction.

Plaintiffs' lack of response may stem from their awareness that discovery has in fact yielded considerable information and documents that overlap the work and analyses conducted by E&Y in their Compliance Engagement review of various Household loan attributes. Household produced millions of pages of documents and answered numerous interrogatories that concern loan origination fees, prepayment penalties, refinance restrictions, late fees, unemployment and disability credit insurance, recording fees and disclosures — all topics that were also studied during the Compliance Engagement. The material Plaintiffs now are seeking is cumulative of substantial material Defendants produced in response to Plaintiffs' document demands, including monthly refund reports, breaking down refunds issued by volume and type (*e.g.*, HHS 01812251-254); reports from state regulatory agencies mandating specific customer refunds (*e.g.*, HHS 02940055-077); State Examination Audit Tracking Expense Summary charts, which include hundreds of pages per chart on information such as cited exam violations and subsequent refunds issued (*e.g.*, HHS 006454751-6441); and Class Period data compiled for the multi-state group of State Attorneys General in advance of the October 11, 2002 settlement agreement, discussing many of the same issues explored by E&Y during the Compliance Engagement (*e.g.*, HHS 02139838-953) — among many other documents relevant to these subjects.

In response to Plaintiffs' interrogatories, Defendants also provided Plaintiffs with specially prepared data on such topics as origination fees and discount points, second secured loans, and revenues from prepayment penalties. And, in response to Defendants' interrogatories, Plaintiffs identified thousands of documents produced by Defendants that Plaintiffs claim support their allegations concerning many of the topics examined by E&Y. For example, Plaintiffs listed over 1,500 documents that they claim support the allegation that "Household

structured loans to include prepayment penalties, tracking the written disclosures in the loan documents. . . .” As a result, Plaintiffs cannot claim that they do not have and, therefore, need information about prepayment penalties and the other loan attributes studied by E&Y during the Compliance Engagement. It also bears repeating in this regard that as the analyses performed by E&Y did not get seriously underway until after the end of the Class Period and were not completed until 2004, by definition they could not have been part of management’s information base or influenced management’s state of mind at the time of the allegedly fraudulent disclosures.

Pursuant to the Court’s April 27 Order, the following has occurred with respect to the Court’s consideration of the proper treatment to be accorded the approximately 400 boxes of E&Y’s Compliance Engagement work papers and E&Y’s January 2004 draft final report.

a. On May 4, Defendants filed a Memorandum of Law in support of their contention that the E&Y work papers in their entirety are privileged (other than the small amount that are dated prior to the end of the Class Period, October 11, 2002, and, therefore, within the *Garner* exception to the attorney-client privilege as applied by this Court). Plaintiffs filed their response on May 11. On May 23, Defendants filed a motion for leave to file *instanter* a reply to Plaintiffs’ brief and, in particular, to Plaintiffs’ contention, raised for the first time in their May 11 brief, that the January 2004 draft report that E&Y prepared for and provided to Household’s General Counsel, is not privileged. The Court granted this motion in a May 24 Minute Order.

b. As noted in paragraph 1(d) above, the Court’s April 27 Order directed Defendants “to produce any additional E&Y documents in their possession that are related to the Compliance Engagement and dated within the Class Period” and to identify on a

privilege log any additional such documents dated after the Class Period. This aspect of the April 27 Order is the subject of Defendants' May 9, 2007 motion for partial reconsideration. In that motion, Defendants note this Court's prior findings that Plaintiffs had never requested documents from Household relating to E&Y and had failed to pursue the document subpoena they served on E&Y (to which E&Y objected) during the discovery period. In addition, as set forth in the motion, Defendants believe the Court had no means of knowing the full impact of this ruling in terms of cost, timing and burden on Defendants in exchange for little or no value to Plaintiffs. The Motion for Partial Reconsideration also sought clarification of the Court's *sua sponte* April 27 ruling that John Keller and Chris Bianucci, formerly of Arthur Andersen and currently of E&Y, can each be deposed for two consecutive seven-hour days, instead of one day each pursuant to Plaintiffs' prior representations to the Court. In a May 14, 2007 Minute Order, the Court set a briefing schedule for this motion, pursuant to which Plaintiffs filed a Response on May 18, 2007 and Defendants filed a Reply on May 25, 2007. This motion is now fully briefed.

c. The Court's April 27 Order also directed the parties to reach "an agreed protocol" for the Court's *in camera* review of a sample of the approximately 280 boxes of E&Y's preliminary work papers on the Compliance Engagement. On May 11, the parties submitted a joint proposal to the Court pursuant to which the Court would review all or portions of 21 of the 280 boxes. In a May 14 Minute Order, the Court accepted the parties' joint proposal and directed Defendants "to deliver the pertinent documents to chambers as soon as possible." Defendants provided the Court with the originals of the 21 boxes on May 22 (after making a duplicate set for Defendants' retention and use). In a May 22 Minute Order, the Court directed Defendants to prepare, by May 29, a privilege log of the documents contained in these 21 boxes and to produce copies of that log to both Plaintiffs and the Court. Under separate cover,

Defendants are doing so today. As the 21 boxes provided to the Court contain the original work papers, there are no bates numbers on those documents. As a result, Defendants prepared the May 29 privilege log with reference to the numbered boxes, and named folders within each box, if applicable, in order to enable the Court to compare the work papers in the boxes with the entries on the privilege log.

d. In a May 17, 2007 letter to the Court, Plaintiffs sought an order directing Defendants to produce all Class Period documents from the data sampling and data validation boxes that contain E&Y's preliminary work papers. Plaintiffs said their request is limited "at this juncture" to only the 21 boxes identified in the joint proposal and "a few other boxes." Defendants responded in a May 18, 2007 letter that the Court's April 27 Order directed production of Class Period documents only from the 110 boxes of analysis-related work papers that had been bates-numbered and for which Defendants had prepared a privilege log. Defendants noted further that the approximately 280 boxes of data sampling and data validation materials have always been treated separately by the Court and now were the subject of the parties' joint proposal for the Court's *in camera* review, and that compliance with the requested order would impose an inordinate burden on Defendants, well out of proportion to the marginal utility of the requested documents.

Defendants believe that the Court will conclude, after its review of the 21 boxes and the privilege log of the documents contained in these boxes, that the 280 boxes containing E&Y's preliminary work need not be reviewed by Defendants for production of any pre-October 12, 2002 documents nor should the remaining 260 boxes be placed on a privilege log. A proportionality analysis, taking into consideration the documents already produced in this case,

the late stage of this case, the time and expense involved in reviewing these boxes, and the limited relevance (if any at all) of such preliminary information supports this conclusion.

As can be seen from the privilege log, produced today to Plaintiffs and the Court, of the 21 boxes provided to the Court for its *in camera* review, these boxes of E&Y's preliminary data testing contain substantial amounts of individual customer loan information. This level of granular detail was not previously provided by Defendants as it is not responsive to any of Plaintiffs' prior document demands or interrogatories in this action. Individual loan account details never were at issue throughout the long discovery phase of this action. Plaintiffs acknowledged this in their December 29, 2006 response to one of Defendants' motions to compel proper answers to interrogatories. In discussing an interrogatory that sought the "revenues" from the alleged predatory sales practices, Plaintiffs said:

"Defendants demand details that are more typical of consumer fraud cases in order to ascertain the total amount of damages to which consumers would be entitled. In this securities fraud action, the Class only need demonstrate that Household's financial statements were materially false and misleading because the revenues earned by the Company were subject to refund or other contingencies, thereby reducing income."

("The Class' Response to Defendants' Motion for Sanctions and to Compel Responses to 'Additional' Interrogatories Allowed By The Court's August 10, 2006 Order," December 29, 2006, p. 8.)

Moreover, during the April 12, 2007 status conference, Plaintiffs indicated that they do not want or need E&Y's preliminary work papers, but only its final report. At that time, Plaintiffs' counsel said, "[w]hat we don't have is the discussion of the total dollars associated with these particular practices. And that is what I understand Ernst & Young to have been hired for We have the Household's recognition of the problem, but not the magnitude So what we have is we have Household recognizing the problem and — hiring Ernst & Young to

figure out the scope of the dollars associated with it.” (4/12/07 Transcript at 24-25, attached hereto at Tab C) Passing for the moment that this argument ignores the huge volume of documents that Plaintiffs have already received regarding contemporaneous evaluations of so-called lending “problems,” the fact is that E&Y’s analysis of the “scope of the dollars” cannot be found in preliminary, start-up work.

e. On May 4, Plaintiffs provided the Court with a list of 32 of the entries on Defendants’ E&Y work papers privilege log and requested that the Court review *in camera* the work papers corresponding to those entries in order, as the Court stated in its April 27 Order, “to confirm that the documents are what they purport to be.” On May 11, pursuant to the Court’s May 8 Order, Defendants produced for the Court’s *in camera* review, all of the work papers corresponding to the 32 entries in Plaintiffs’ May 4 letter. (During the April 27 status conference, the Court noted that it had reviewed documents corresponding to 13 other entries on Defendants’ E&Y work papers privilege log and “confirm on the record that they are what the defendants purported them to be as identified on the log.” (April 27, 2007 Transcript at 28, attached hereto at Tab D)

f. In its April 27 Order, the Court ruled that “[t]he appropriate cut-off date for the *Garner* exception is October 11, 2002,” rather than August 16, 2002, the date of Plaintiffs’ first lawsuit against Household. In compliance with this ruling, on May 14, Defendants produced a revised privilege log that reflects the Court-ordered production of pre-October 12, 2002 documents and also reflects certain date changes after consultation with knowledgeable E&Y personnel. On May 15 and 16, 2007, Defendants produced such documents to Plaintiffs.

g. On May 9, the Court directed Defendants to provide Plaintiffs with an unredacted copy of the April 24, 2007 Affidavit of John Keller of E&Y and ruled, as Defendants had requested, that this production would not be considered a waiver of privilege as to the underlying E&Y work papers and the content and results of the Compliance Engagement. Defendants provided Plaintiffs with an unredacted copy of Mr. Keller's April 24, 2007 Affidavit on May 9 and, on May 21, Defendants filed a copy of this unredacted Affidavit under seal (to obviate Plaintiffs' frivolous argument in their May 11 brief that the Court could not consider this Affidavit because it had not been docketed in this action).

In sum, as a result of the various briefing and submissions regarding the privileged E&Y Compliance Engagement and work papers, Defendants believe the Court should conclude that:

(i) the January 2004 draft final report prepared by E&Y and provided to Household is a privileged document;

(ii) the 110 boxes of E&Y work papers pertaining to this Engagement containing, E&Y's analyses and related documents, as described in Defendants' related privilege log, are privileged in their entirety, with the limited exception of documents created prior to October 12, 2002 (pursuant to this Court's earlier *Garner* ruling);

(iii) the 280 boxes containing E&Y's preliminary work papers and related documents pertaining to this Engagement are privileged because they reflect start-up tests and analyses that were integral to the performance of the privileged engagement; and

(iv) the balance of these preliminary work papers need not be placed on a privilege log or reviewed for the production of any pre-October 12, 2002 documents, in view of the considerable burden that would be imposed on Household and the consequent delay, especially when compared with the, at best, marginal relevance and utility to Plaintiffs of any documents that might be produced and the document production that has already occurred in this case.

The foregoing recap of proceedings regarding the privileged E&Y Compliance Engagement provides a vivid demonstration that Plaintiffs will not stop seeking more and more documents unless and until the Court puts a definitive end to their constant demands and motions as to a set of material that did not even exist during the Class period, and privileged or not, could not possibly have played a role in the decisions of Household's management as to its public disclosures between July 30, 1999 and October 11, 2002. Plaintiffs have already managed to delay their production of expert reports for weeks while these issues are left hanging.

This Court has quite properly required the parties to create a detailed record on which it may address Plaintiffs' belated demand for additional production of documents relating to the privileged Compliance Engagement. That record provides ample basis for this Court to extend its December 6 Order to all of the E&Y work papers and to protect Defendants from the burden, expense and delay of searching for and logging marginally relevant material never properly requested before the discovery cut-off. Plaintiffs may well lodge another objection with the District Court from such a ruling, but given the significant passage of time since their expert reports were originally due, the Court should instruct Plaintiffs to make their long-awaited expert production no more than one week after the conclusion of the Keller and Bianucci depositions.

Dated: May 29, 2007
Chicago, Illinois

Respectfully submitted,

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and

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TAB A

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TRANSCRIBER'S NOTE: On Page 41, while Ms. Best was speaking, something happened to her microphone. Possibly it was bumped or turned off. A lawyer on the phone asks her to stand directly in the front of the microphone; she says she is, but the microphone ceased operating as she was speaking. Many of the statements made after that point using that microphone were only partially audible, as evidenced by the complaints from the lawyers on the phone.

PLEASE SUPPLY CORRECT VOICE IDENTIFICATION

Transcribed by:

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Proceedings recorded by electronic sound recording, transcript produced by transcription service.

1 the Household defendants.

2 THE COURT: Good morning, Mr. Deutsch.

3 MS. NALE: Your Honor, if I might introduce myself,
4 Lucia Nale from Mayer, Brown, Rowe and Maw on behalf of the
5 third-party witnesses, Keller and Biannuci, and on behalf of
6 Ernst & Young.

7 THE COURT: Okay. And how do you spell your last
8 name?

9 MS. NALE: My last name is Nale, N- as in Nancy
10 -a-l-e.

11 THE COURT: Okay. - a-l-e, Ms. Nale. Okay.

12 MS. NALE: Nice to see you again.

13 THE COURT: Thank you. I was going to say we've had
14 some matter before, I thought. But okay.

15 Well, we have a very large agenda here. The first
16 thing that I'd like to do is I want to make sure that we're all
17 on the same page on pending motions. So the first thing I just
18 want to do is go over, I have a pending, it's Class Motion to
19 Compel Production of Ernst & Young Documents. That's Document
20 974. Second is Class Motion to Compel Production of Discovery
21 under The Hague. Maybe we could get an update on that during
22 the status. Or, Mr. Brooks?

23 MR. BROOKS: The last Morgan Stanley FO?

24 THE COURT: Right.

25 MR. BROOKS: Is on Tuesday, I believe?

1 THE COURT: Okay. So will that dispose of the motion
2 then?

3 MR. BROOKS: It should, Judge.

4 THE COURT: Okay. But I shouldn't -- We shouldn't
5 strike it or say that it's moot at the moment?

6 MR. BROOKS: We will let you know by next Friday.

7 THE COURT: Okay. Good.

8 MR. BROOKS: And if you don't hear from us . . .
9 Well, we'll let you know either way.

10 THE COURT: Okay. Please do, to remind us, okay?
11 That's Document Number 678.

12 Now the third motion is Class Motion to Compel
13 Production of E&Y Compliance Engagement Documents Not Listed on
14 Defendant's Privilege Log or for a Privilege Log as to Such
15 Documents, and that's Document Number 1049, and I don't -- And
16 that's the one, that has not been responded to. Not responded.
17 Okay.

18 Then I have fourth, and this relates to Ms. Nale so
19 maybe we'll talk about it first, Class Motion to Compel
20 Deposition Dates for John Keller, Chris Biannuci, and Ernst &
21 Young, including Production of E&Y Documents. That's Document
22 Number 1051. I'll just quickly summarize the way we summarized
23 the motion, and of course you may add anything you wish.

24 The stated purpose of this motion is to, quote,
25 "schedule the Keller and Biannuci depositions, obtain a date

TAB B

1 TRANSCRIBED FROM DIGITAL RECORDING

2 IN THE UNITED STATES DISTRICT COURT
3 NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

4 LAWRENCE E. JAFFE, Pension Plan, on) No. 02 C 5893
behalf of itself and all others)
5 similarly situated, and GLICKENHAUS)
INST GRP.,)
6)
Plaintiffs,)
7)
vs.)
8)
HOUSEHOLD INTERNATIONAL, INC., ARTHUR)
9 ANDERSEN, L.L.P., W F ALDINGER, and)
D A SCHOENHOLD,) Chicago, Illinois
10) April 12, 2007
Defendants.) 3:36 P.M.

11 TRANSCRIPT OF PROCEEDINGS - Telephone Status
12 BEFORE THE HONORABLE NAN R. NOLAN, Magistrate Judge

13 APPEARANCES:

14 For the Plaintiffs: LERACH, COUGHLIN, STOIA, GELLER,
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16 BY: MR. DAVID CAMERON BAKER
MR. LUKE O. BROOKS
17 MR. SPENCER A. BURKHOLZ
(Appearing telephonically)

18 MILLER LAW LLC
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20 BY: MR. MARVIN ALAN MILLER
MS. LORI A. FANNING
21 (Appearing telephonically)

22 PAMELA S. WARREN, CSR, RPR
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25 NOTE: Please notify of correct speaker identification.

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9 MR. CRAIG S. KESCH
10 (Appearing telephonically)

11
12 EIMER, STAHL, KLEVORN & SOLDBERG, LLP
13 224 S. Michigan Avenue, Suite 1000
14 Chicago, Illinois 60604

15 BY: MR. ADAM B. DEUTSCH
16 (Appearing telephonically)
17
18
19
20
21
22
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25

1 mean, the plaintiffs are going to be bored when they see this
2 index because almost every one of them is exactly the same.

3 MS. BEST: Okay.

4 THE COURT: So do you understand what I am saying?
5 Okay?

6 MS. BEST: I -- I do understand what you are saying.
7 And if for some reason we need clarification when we -- because
8 one issue -- because we have these -- we have looked in some of
9 these boxes of 225, but we haven't looked in all of them. I
10 imagine they are all very uniform.

11 THE COURT: And as you get to the back of the index,
12 it changes a little. And they'll have -- you know, they are
13 going to now have the index. So they can see that too.

14 But I don't understand the nature -- I -- because I
15 haven't seen them.

16 And then next step I may want to see them. But first
17 I want Ernst & Young to tell us about the nature of these
18 documents. Okay?

19 Then the record will be -- that's the same affidavit.
20 That's part of the same affidavit there.

21 Now hold on. I have something else.

22 (Brief interruption.)

23 THE COURT: Now this will also be helpful that the
24 plaintiffs gets this index because I am going to turn around to
25 the plaintiffs, and I want to know on the record from the

1 plaintiffs what of these documents do you have already. And
2 what I mean by that is there appears to be that what is running
3 through this entire Ernst & Young is that there was an AG
4 settlement of a number of states.

5 I know the work that we did a year ago on the Attorney
6 General, but I never kept track on what documents you got, what
7 documents you didn't get.

8 There appears to be a thread of something about the
9 SEC. I never really had any discovery disputes about that.

10 What I want from the plaintiffs, when you look at all
11 of this, is I want you to tell me what you have already.

12 MS. BEST: Your Honor, I think I can short circuit
13 that and say the plaintiffs don't have any of the material that
14 is in the E&Y work paper boxes.

15 THE COURT: They don't have any of the underlying
16 material that relates to -- that relates to prepayment
17 penalties, late fees, points on points, origination fees,
18 refund processing.

19 MS. BEST: I mean, they have certain -- they have lots
20 of documents that relate to those sorts of issues, of course.

21 THE COURT: And they don't have anything in the global
22 settlement.

23 MS. BEST: They have --

24 MR. BAKER: Your Honor, we have lots --

25 MS. BEST: They have lots of information -- they have

1 THE COURT: Okay. Well, I -- I'm not saying that you
2 have the Ernst & Young documents.

3 MR. BAKER: I don't believe --

4 THE COURT: If you have similar -- if you have similar
5 information that Ernst & Young -- I am just -- I want this
6 record to be clear if you have either parallel
7 information -- and I just got very confused when I was reading
8 everything that I thought, well, maybe, you had some of this
9 material, even if not in the same form, as Ernst & Young, that
10 you had some of the same background material, and I wanted a
11 statement about that.

12 MR. BAKER: I think, your Honor, what we can say --
13 and again we haven't seen the documents so I can't really say
14 what's exactly (unintelligible) work paper documents -- boxes
15 rather -- but what we have is we have a lot of detail about
16 states saying, you have this problem with your administrative
17 (unintelligible). You have this problem with your
18 (unintelligible). You have this problem with a lot of those
19 issues that your Honor mentioned.

20 What we don't have is the discussion of the total
21 dollars associated with those particular practices. And that
22 is what I understand Ernst & Young to have been hired for.

23 In other words, the State of California says you are
24 overcharging in the administrative fees, and they reached a
25 settlement with California. But that spurred Household to take

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TRANSCRIBED FROM DIGITAL RECORDING

IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

LAWRENCE E. JAFFE, Pension Plan, on) No. 02 C 5893
behalf of itself and all others)
similarly situated, and GLICKENHAUS)
INST GRP.,)

Plaintiffs,)

vs.)

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D A SCHOENHOLD,) Chicago, Illinois

Defendants.) April 12, 2007
3:36 P.M.

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APPEARANCES:

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BY: MR. ADAM B. DEUTSCH
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11 statement about that.

12 MR. BAKER: I think, your Honor, what we can say --
13 and again we haven't seen the documents so I can't really say
14 what's exactly (unintelligible) work paper documents -- boxes
15 rather -- but what we have is we have a lot of detail about
16 states saying, you have this problem with your administrative
17 (unintelligible). You have this problem with your
18 (unintelligible). You have this problem with a lot of those
19 issues that your Honor mentioned.

20 What we don't have is the discussion of the total
21 dollars associated with those particular practices. And that
22 is what I understand Ernst & Young to have been hired for.

23 In other words, the State of California says you are
24 overcharging in the administrative fees, and they reached a
25 settlement with California. But that spurred Household to take

1 the next step is do have this problem elsewhere. They hired
2 Ernst & Young to look at that and to quantify that. We don't
3 have that second piece. We have the Household's recognition of
4 the problem, but not the magnitude. Because as far as I have
5 been able to ascertain Household internally didn't figure out
6 it -- how much they owed in access administrative fees or what
7 the refund should be for that or what the refund should be for
8 (unintelligible).

9 They had a team that could do this, but they didn't do
10 it with the same, I should say, thoroughness and -- as
11 Ernst & Young. In fact, that's -- if I recall Mr. Robin's
12 declaration, the reason why they hired Ernst & Young is because
13 they couldn't do it in-house.

14 THE COURT: Okay.

15 MR. BAKER: So what we have is we have Household
16 recognizing the problem and Ernst and -- and hiring Ernst
17 & Young to figure out the scope of the dollars associated with
18 it.

19 THE COURT: Okay.

20 MS. BEST: And just -- your Honor, we would emphasize
21 that we have produced a lot of documents about customer
22 complaints and about refunds already during the class period.
23 I mean, all -- again, just the key issue I think that the Court
24 needs to focus on, which I think the Court has, is this is all
25 after not only the adversity with the plaintiff, but after the

TAB D

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TRANSCRIBER'S NOTE: On Page 41, while Ms. Best was speaking, something happened to her microphone. Possibly it was bumped or turned off. A lawyer on the phone asks her to stand directly in the front of the microphone; she says she is, but the microphone ceased operating as she was speaking. Many of the statements made after that point using that microphone were only partially audible, as evidenced by the complaints from the lawyers on the phone.

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