

In view of the adjournment of the October 2, 2007 Status Conference, Defendants respectfully submit this Status Report for the Court's information, and to alert the Court to a discovery impasse that may require the Court's assistance in the near future.

1. Plaintiffs' Expert Reports

On August 15, Plaintiffs served the reports of three expert witnesses: Daniel R. Fischel on loss causation, Catherine A. Ghiglieri on "predatory lending" and reaging, and Harris L. Devor of the accounting firm of Shechtman Marks Devor on accounting and materiality issues. The reports, accompanying exhibits and back-up were voluminous, to say the least. All told, the reports consist of 846 pages of opinion and attached exhibits, references to over 5,000 deposition exhibits and 13,000 additional pages of produced documents, 119 testimony transcripts from this case and others, as well as CD ROMS containing over 8,000 pages of "non-case specific" materials, background materials concerning the experts, and additional supporting materials. At the same time, Plaintiffs supplemented their interrogatory answers to adopt the expert reports as their position on virtually every issue in this case.

Unlike the compilers of Plaintiffs' reports, the experts retained by Defendants to respond to these reports have not had the luxury of studying the discovery record for months or years in advance of the submission deadline. Because they required additional time to absorb the massive record accompanying the August 15 submissions, consider relevant material overlooked by Plaintiffs' experts, evaluate the experts' conclusions, and prepare detailed responses, Defendants asked Plaintiffs for a two month extension of time, and were offered an additional three weeks. With the hope of avoiding motion practice, Defendants accepted that short extension, and their experts are making best efforts to comply with the current November 5,

2007 date for submission of their reports. A distinct possibility remains that the three weeks offered by Plaintiffs will prove insufficient for Defendants' experts.

2. Proceedings Before Judge Guzman on September 4, 2007

Counsel for the parties appeared before Judge Guzman on September 4, 2007, for the presentment of Defendants' motion for an order to implement the Court's February 28, 2006 ruling that claims arising from alleged misrepresentations or omissions occurring before July 30, 1999 were time barred. The motion was triggered by Defendants' receipt of the loss causation report of Professor Fischel (and Plaintiffs' interrogatory answers adopting that report in full), which concluded that the price of Household stock was artificially inflated at least as early as July 30, 1999, and that there was no further inflation during the Class Period. Because the necessary implication of this opinion is that the alleged inflation was caused solely by events that occurred during the period of repose, Defendants demonstrated in their motion that all of Plaintiffs' remaining claims are time barred.

Plaintiffs did not provide any substantive response to the motion, but rather argued that briefing and consideration of the motion should be deferred until after the close of expert discovery. They also implicitly conceded that Plaintiffs had not yet fully disclosed their reasoning and/or the claimed implications of Mr. Fischel's report, when they stated without explanation that "the factual and legal issues presented by Defendants' motion are infinitely more complex than Defendants will represent." Based solely on Judge Guzman's desire to avoid piecemeal adjudication in this case, the Court denied the motion for the time being, and noted that he would address the substance of Defendants' argument about Fischel's apparent concession after the close of expert discovery.

In the course of the presentment, the status conference with Judge Guzman that had previously been scheduled for October 2, 2007 was adjourned to January 14, 2008 in recognition that expert discovery has not yet been completed.

3. Plaintiffs' Refusal to Provide Required Disclosure on Class-Wide Damages

Plaintiffs' three expert reports and supplemental interrogatory answers contain no computation or explanation of the damages claim that Plaintiffs intend to advance, even though this is an essential element of Plaintiffs' burden of proof on liability, and such disclosure is mandated by Rule 26(a)(1) of the Federal Rules of Civil Procedure. When Defendants first sought to compel production of this information in 2004, Plaintiffs argued that damages in securities fraud cases is a matter for expert analysis and opinion, such that Plaintiffs' damages need not be disclosed until the expert phase of discovery. Now that their deadline for expert disclosure has passed, Plaintiffs have advanced numerous other excuses for their failure to address class-wide damages, including their predictable mantra that Defendants are pressing this demand only to foster delay (as if the deficient disclosures were Defendants' idea), the baseless premise that Defendants are seeking only premature details about the named plaintiffs, and the fatuous argument that Defendants can discern Plaintiffs' theory of damages from the Fischel report on loss causation, even though that report and its voluminous attachments neither purport to compute class wide damages nor provide any indication of the computation approach that he and Plaintiffs propose.

If Plaintiffs will not voluntarily fulfill their obligations under Rule 26(a)(1) and their commitment to this Court, Defendants may need to seek appropriate relief from the Court.

Dated: September 28, 2007
Chicago, Illinois

Respectfully submitted,

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